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OFFICE OF HUNGARY

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of Audit Reports on the Financial Management and Control of  
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President

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## TABLE OF CONTENTS

<b>INTRODUCTION</b>	<b>5</b>
<b>A. INTERNATIONAL COMPARISON IN THE LIGHT OF 2008 FIGURES</b>	<b>7</b>
1. The 2000–2006 programming period	7
2. Net position of Hungary	13
3. Cohesion Policy 2007–2013	14
4. Annual summaries pursuant to Article 53b of the amended EU budget regulation	15
<b>B. SUMMARY EVALUATION, CONCLUSIONS</b>	<b>18</b>
1. Financial relations between Hungary and the European Union	18
1.1. Domestic macroeconomic environment of using EU funds	18
1.2. Financial relations of Hungary and the EU between 2004 and 2009	19
1.3. Financial relations between Hungary and the EU in 2009	21
1.4. Funds directly managed by the European Commission	23
2. The national system of conditions of EU funds	24
2.1. The national institutional system EU subsidies	24
2.2. National control and monitoring system of EU subsidies	26
2.3. National registration systems of EU subsidies	31
2.3.1. Unified Monitoring and Information System	31
2.3.2. The monitoring system operated by the Treasury	32
2.3.3. Integrated Administration and Control System	32
2.3.4. Accounting and registration systems	33
2.4. Irregularity and claims management	35
3. Main findings and conclusions of audits on the utilisation of EU funds in 2009	39
3.1. Funds available in the 2000–2006 programming period	39
3.1.1. National Development Plan	39
3.1.2. Cohesion Fund	43
3.1.3. INTERREG programmes	47
3.1.4. Schengen Facility	49
3.1.5. Transition Facility	50
3.1.6. The EEA and Norwegian Financing Mechanisms	51
3.2. Funds available in the 2007–2013 programming period	53
3.2.1. New Hungary Development Plan	53
3.2.2. International cooperation programmes	61

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3.2.3. Swiss-Hungarian Cooperation Programme	65
3.3. Agricultural subsidies	65
3.3.1. Macroeconomic conditions affecting agriculture	65
3.3.2. Financing and institutional system and legal background of agricultural subsidies	66
3.3.3. The national control system of agricultural subsidies	68
3.3.4. Agricultural and rural development subsidies in 2009	71
3.3.5. Findings of audits regarding agricultural and rural development subsidies in 2009	72
3.3.6. SAPARD	76

## **ANNEXES**

Annex 1	Budgetary relations between Hungary and the European Union 2004–2009
Annex 2/A	EU subsidies included in the bill on the execution of the 2009 budget of the Republic of Hungary and the related national co-financing
Annex 2/B	EU subsidies implemented via out-of-budget funding
Annex 3	Structural changes in agricultural subsidies between the budget periods of 2000–2006 and 2007–2013
Annex 4	Audits, summaries and reports relevant to the year 2009 serving as the basis for the present Summary

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## LIST OF ABBREVIATIONS

ARDA	Agriculture and Rural Development Agency
ARDOP	Agriculture and Rural Development Operational Programme
CF	Cohesion Fund
EAFRD	European Agricultural Fund for Rural Development
EAGF	European Agricultural Guarantee Fund
EAGGF (GS)	European Agricultural Guidance and Guarantee Fund (Guarantee Section)
ECOP	Economic Competitiveness Operational Programme
EEA	European Economic Area
EFF	European Fisheries Fund
EIOP	Environment Protection and Infrastructure Operational Programme
ENPI	European Neighbourhood and Partnership Instrument
ERDF	European Regional Development Fund
ESF	European Social Fund
EU	European Union
EU 10	Member States that joined the EU on 1 May 2004 (Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia and Slovenia)
EU 13	Cohesion Fund beneficiary Member States (EU 10 + Greece, Portugal and Spain)
EU 15	Member States of the EU prior to 1 May 2004
EU 25	The 25 Member States of the EU prior to 1 January 2007
EU 27	The 27 Member States of the EU from 1 January 2007
FIFG	Financial Instrument for Fisheries Guidance
Final Accounts	Report No. 1016 on the Audit on the Execution of the Budget of the Republic of Hungary for the Year 2009
FOP	Fisheries Operational Programme
GDP	Gross Domestic Product
GNI	Gross National Income
HRDOP	Human Resources Development Operational Programme
IACS	Integrated Administration and Control System
INTERACT	INTERREG Animation Cooperation and Transfer
IOP	Implementation Operational Programme
IPA	Instrument for Pre-Accession Assistance
ISPA	Instrument for Structural Policies for Pre-Accession
JEREMIE	Joint European Resources for Micro to Medium Enterprises
LEADER	Liaison Entre Actions pour le Developpement de l'Economie Rurale
NDA	National Development Agency
NDP	National Development Plan
NHDP	New Hungary Development Plan

NHRDP	New Hungary Rural Development Programme
NRDP	National Rural Development Plan
OLAF	Office Européen de Lutte Anti-Fraude
OP	Operational Programme
RDOP	Regional Development Operational Programme
SAO	State Audit Office of Hungary
SAPARD	Special Accession Programme for Agriculture and Rural Development
SAPS	Single Area Payment Scheme
SLA	Service Level Agreement
SME	Small and medium-sized enterprise
SPS	Single Payment Scheme
TEN-T	Trans-European Transport Network
TMS	Treasury Monitoring System
Treasury	Hungarian State Treasury
UMIS	Unified Monitoring and Information System

## INTRODUCTION

In line with the efforts of the Contact Committee<sup>1</sup> comprised of the presidents of the SAIs of the EU countries and the provisions in Paragraph 4 of Parliamentary Resolution No. 43/2005. (V. 26.) on the acceptance of the report on the 2004 Activities of the State Audit Office of Hungary (SAO), this Summary presents Hungary's financial relations with the EU and the experiences gained in 2009 during the audits related to EU financial assistance. The Parliamentary Resolution requires the State Audit Office to give an overview on the practice of the complete utilisation of EU funds, within this framework it shall review the work of national institutions performing the audit of financial flows related to EU funds and present the audit findings.

As far as the time horizon of the Summary is concerned, during the presentation of each issue we continued to follow the basic principle of focusing on information, data as well as audit findings related to the year 2009. In order to achieve the main objective of the Summary, being the drawing of a comprehensive and objective picture, we discuss the current events and developments of 2010, and – taking account of the closure of the Operational Programmes of the period between 2004–2006 on 30 September 2010 – we included the data of the financial closing of the National Development Plan.

The annual reports based on the processing of Member States' reports and data provision are made public by the European Commission at the beginning of the year following the subject year. Consequently, at the time of compiling this Summary, international comparative data were available for 2008. The Summary provides an analysis of the utilisation of funds by Hungary, i.e. its absorption capacity, and particularly of Hungary's position among the new Member States that joined the EU in 2004.

Similarly to last year's issue, the Summary provides a comprehensive picture of the tasks and powers of various organisations and their roles in audits. In this Summary, the participants in the institutional system are consistently described in the structure and with the names valid in the period under review, i.e. in 2009. For the sake of transparency, we present Hungary's payments to the EU budget, the utilisation of funds that are included in the central budget of the Republic of Hungary, of funds included as out-of-budget items and of funds that can be applied for directly from the EU, as well as an evaluation of the spending of subsidies granted directly to local governments as beneficiaries. The Summary pays special attention to the subject of irregularity.

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<sup>1</sup> The Contact Committee confirmed in several of its resolutions that the development of the audit of EU Funds served the interests of the national parliaments of the EU Member States as well as the common interests of the Member States. An essential element of this is that the independent national SAIs should prepare reports on the utilisation of EU funds and the development of financial management in the respective Member State in the year under review. This may indirectly as well as directly contribute to a more efficient and more transparent utilisation of the EU budget.

In the course of compiling this summary, the SAO used the experiences of both internal and external, Hungarian and EU audit institutions. Although the findings of some of these audits (e.g. SAO) are available for the general public, in order to create a comprehensive picture we believed that it was necessary to present them as well. The audit findings of the European Commission, the Audit Authority/Body Responsible for issuing the Final Declaration<sup>2</sup> and of the internal audit units are published in the Summary in a synthesized manner, as their reports are not public<sup>3</sup>.

The great challenge for Hungary in 2009 was to increase the magnitude of the drawing of EU funds of the 2007–2013 EU budget period in a deteriorating economic situation and to maximise the utilisation of the funds of the 2000–2006 EU budget period. The National Development Plan was successfully closed financially in 2010; all in all, this resulted in a full commitment of funds. However, the process of closure called attention to the fact that a more coordinated operation of the participants of the institutional system is needed, and in the future more emphasis should be laid on the efficient and effective use of the funds and on the process of irregularity and claims management.

Let us hereby express our gratitude to the leaders and staff of the Ministry of Finance, the Government Audit Office, the National Development Agency, the Ministry of Agriculture and Rural Development, the Agricultural and Rural Development Agency, as well as the Hungarian Customs and Finance Guard for their cooperation and readiness to help.

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<sup>2</sup> The Government Audit Office until 30 June 2010, then its legal successor, the Directorate General for Audit of European Funds from 1 July 2010 on.

<sup>3</sup> The list of audits serving as a basis for the Summary is included in Annex 4.

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## **A. INTERNATIONAL COMPARISON IN THE LIGHT OF 2008 FIGURES**

### **1. THE 2000–2006 PROGRAMMING PERIOD**

In order to evaluate the data on the utilisation of EU funds by Hungary we examined Hungary's position among EU Member States in terms of financial effectiveness.

To determine the absorption capacity, we examined the ratio of commitments made by Hungary for the funding appropriations in comparison with the other Member States, and also the amount of payments effected in 2008. The international comparison was compiled relying on the annual reports of the European Commission published in 2009<sup>4</sup>.

#### **Structural Funds**

In order to achieve one of its most important objectives, i.e. a substantial improvement in competitiveness, the EU strives to increase the share of subsidies from the Structural Funds and the Cohesion Fund within the EU budget. Each Member State receives subsidies from the Structural Funds. The four funds (ESF, ERDF, EAGGF and FIFG) amount to more than 30% of the total EU budget.

In spite of the deteriorating economic environment, the European Commission found the year 2008 good in terms of the implementation of the budget. The aggregate level of implementation concerning Commission payments reached 99.9% with regard to regional programmes and projects (which corresponds to the 2007 and 2006 results), 98% for the ESF programmes, nearly 100% for the EAGGF fund and 97.8% in the case of the FIFG. In 2008, the so-called 'n+2' rule did not have to be applied with respect to any of the four funds for the 2006 commitment.

The total amount of de-commitment in connection with the 2000–2006 programming period due to the 'n+2' rule will be determined upon the closure of the operational programmes.

With regard to the 2000–2006 budget period, 91% of the ERDF allocation, 90.7% of the ESF allocation, 97.2% of the EAGGF allocation and 89.3% of the full FIFG allocation was paid until the end of 2008.

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<sup>4</sup> The data of EU level summaries and reports prepared by the European Commission pertain to the year 2008, due to the deadlines for the submission of reports and data by the Member States.

Concerning the 2000–2006 period, Member States availed of the opportunity to extend the settlement period in the case of 74% of the ERDF and ESF programmes. With the exception of the Regional Development Operational Programme (RDOP), Hungary requested (and was granted) the extension of the settlement period by 6 months with regard to all Operational Programmes.

The data pertaining to **the entire programming period** reveal that all Member States committed the allocations available to them in full; the ratio of payments to the allocation fluctuated between 82–95% (Table 1). The differences between new and old Member States that was experienced in 2005 and 2006 disappeared completely by the end of the period, to such an extent that three new Member States are the leaders; the performance of eight new Member States exceeded the EU average (91.21%), and of the new Member States only Cyprus is among the laggards.

**Table 1**

**Implementation of the Structural Funds  
in the period of 2000–2008**

<b>Member State</b>	<b>Allocation 2000-2006 (EUR million)</b>	<b>Payment as a percentage of the allocation 31.12.2008</b>
Malta	63.19	95.00%
Lithuania	895.17	95.00%
Latvia	625.56	95.00%
Finland	1,955.56	94.98%
Estonia	371.36	94.95%
Austria	1,586.05	94.90%
Germany	30,223.44	94.51%
Ireland	3,184.23	94.44%
<b>Hungary</b>	<b>1,995.72</b>	<b>94.11%</b>
Sweden	1,997.92	93.91%
Slovakia	1,115.19	93.31%
Poland	8,275.81	93.05%
Portugal	20,436.82	92.73%
Slovenia	237.51	91.82%
Greece	22,688.32	91.01%
Czech Republic	1,584.36	90.64%
Belgium	1,932.38	90.63%
United Kingdom	16,288.58	90.40%
Spain	46,414.61	90.39%
France	15,540.32	90.24%
Italy	30,661.7	85.17%
Netherlands	2,523.07	84.89%
Cyprus	49.97	83.73%
Luxembourg	75.68	82.98%
Denmark	591.64	82.34%
<b>Total</b>	<b>211,314.16</b>	<b>91.21%</b>

Source: European Commission Annual Report on the Implementation of the Structural Funds, 2008

**As regards the implementation of the Structural Funds** in the 2000–2006 period, **Hungary's** performance (9th place) exceeded the average of the EU 25 and was barely below the maximum 95%.

Concerning the Structural Funds, in 2008 the Commission continued the audit of the programmes and started its audit visits to prepare the 2000–2006 closures, in order to evaluate Member States' preparations for the closing of projects as well as to identify and reduce the risks related to closure.

A thorough audit plan was put into action in connection with the 51 INTERREG III programmes on the basis of the reservations indicated in the 2007 activity report, thus reaching coverage of 54.1% in terms of the budget of the programmes.

It is worth mentioning that the final audits of the 1994–1999 programming period (EU 15) concerning the ESF were completed as late as in 2008, while regarding the ERDF they continued in 2009 as well. The programme aiming at the ex post audit of EAGGF was already concluded in 2006; the financial correction procedures are underway. The financial closure of 50 of the 52 programmes of the FIFG were completed by the end of 2008, the closure of two was carried over to early 2009.

The most important finding of the ex post evaluation of the Structural Funds published by the European Commission is that cohesion policy greatly contributed to the economic development of the regions concerned. However, attention was called to the fact that it is not possible to detect a clear and direct relationship between the subsidies under the cohesion policy and the changes in the economic indicators of the region.

The evaluation pointed out that the subsidies represented a significant share in the investments of the countries concerned (although its extent varied). The greater part of the subsidies focused on two well- definable areas of intervention: transport and the development of the economy. On the other hand, significant amounts were allocated (especially in the case of regional operational programmes) to the implementation of too diverse objectives, therefore the achieved results were not integrated to serve a comprehensive strategy.

The analysis pointed out that the subsidies typically reached its main target, and, apart from some exceptions, territorial disparities declined. Evaluators found weaknesses in the implementation of the horizontal objective aiming at the reduction of gender inequalities: objectives remained formal, but no serious activity was attached to them.

### **Cohesion Fund**

The so-called Cohesion Fund (CF) was created in 1993 in order to promote the development and convergence of underdeveloped regions. According to the criteria then in force, four Member States were eligible for this funding: Spain, Ireland, Portugal and Greece. In 2008, 15 Member States received subsidies from the Cohesion Fund (the 12 new Member States as well as Greece, Portugal and Spain).

The year 2008 Annual Report on the implementation of the Cohesion Fund prepared by the Commission pointed out that the use of the Fund accelerated. At the end of 2008 – taking into account all the countries that are receiving subsidies now – the average rate of utilisation of available resources (payments to commitments) was 66.3% for the Cohesion Fund and the earlier ISPA projects.

Malta (79.8%) and Slovakia (70.37%) caught up with the best-performing old Member States; performance was the lowest in Bulgaria (39.8%). The utilisation rate ranged between 50.9% and 76.9% in the other Member States. Falling severely short even among the ten acceding countries, Hungary with its utilisation rate of 52.62% only outperformed Poland (Table 2). The pace of the progress of the programmes is even more apparent from the fact that compared to 2007 Hungary's payment ratio only increased by 5%, while this ratio varied between 13–23% for the other acceding countries.

**Table 2**

**Implementation of the Cohesion Fund in the period of 2000–2008  
(EUR million)**

Member State	Commitments (net)	Payment (until December 2008)	Payment as a percentage of the allocation 31 December 2008
Greece	2,503.74	2,450.74	97.88%
Spain	11,788.53	9,838.03	83.45%
Malta	21.97	17.53	79.80%
Portugal	3,156.54	2,427.13	76.95%
Slovakia	766.25	539.21	70.37%
Latvia	713.99	499.52	69.97%
Estonia	427.03	289.15	67.71%
Lithuania	846.45	559.97	66.16%
Czech Republic	1,228.10	796.79	64.88%
Slovenia	254.19	162.60	63.96%
Cyprus	54.01	31.79	58.86%
<b>Hungary</b>	<b>1,482.60</b>	<b>780.10</b>	<b>52.62%</b>
Poland	5,634.53	2,871.74	50.97%
Romania	2,042.73	1,040.13	50.91%
Bulgaria	879.91	350.02	39.78%
<b>Total</b>	<b>32,374.36</b>	<b>22,654.44</b>	<b>66.30%</b>

Sources: European Commission Annual Report on the Implementation of the Cohesion Fund, 2008

The number of closed Cohesion Fund projects increased to 216 by the end of 2008. The number of unclosed projects amounted to 976 (the ratio for Hungary is 10 projects out of 47).

The report concluded that right after our joining the EU, an excessive deficit procedure was launched<sup>5</sup> against Hungary on the basis of its general government deficit of 5.9% in 2003<sup>6</sup>. Then it was established twice – in January 2005 and in November 2005 – that Hungary did not take any efficient measures following the recommendations by the Council. However, as Hungary is not a member of the euro area, a special derogation is in force with regard to the application of the further steps of the excessive deficit procedure. Accordingly, in July 2007 the Council only formulated further recommendations on the basis of Article 104(7) of the Treaty. The Commission did not advise the Council to suspend the commitments of the Cohesion Fund in neither occasions. In view of the economic crisis, pursuant to Article 104(7) of the Treaty, in July 2009 the Council decided to set a new deadline (2011) for terminating the excessive deficit.

Commission audits in 2008 regarding the period of 2000–2006 primarily focused on follow-up and on the audit of the preparations of Member States for the closure. The Commission placed special emphasis on the review of the work of national audit organisations and the examination of annual audit reports.

With regard to the Cohesion Fund, the Commission adopted a decision about suspension in connection with two public road sector projects in Bulgaria<sup>7</sup>. In 2008, the total value of financial corrections following the audits by the Commission and the European Court of Auditors and the investigations of the OLAF amounted to EUR 92.7 million. Hungary was not affected by financial correction in 2008. It is noteworthy that in 2008 the Commission enforced financial corrections against Greece and Spain, which were well-performing beneficiaries of the old Cohesion Fund, in values of EUR 29 million and EUR 54 million, respectively. These figures repeatedly direct attention to the fact that it is not enough to spend funds quickly, at least as much emphasis has to be laid on regular (and effective) utilisation.

The European Commission's Directorate General for Regional Policy formulated a qualified opinion of the operation of the management and control systems in the case of ten Member States<sup>8</sup> (representing 84.55% of the total subsidies paid from the Cohesion Fund in 2008). (With the exception of

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<sup>5</sup> In 2008, the excessive deficit procedures that had been initiated earlier were terminated against all countries, with the exception of Hungary.

<sup>6</sup> In the event that a Member State exceeds the allowed threshold value of the deficit, a so-called excessive deficit procedure is launched at EU level. The procedure comprises several steps, and the EU may even apply sanctions to induce the given Member State to adjust the excessive deficit.

<sup>7</sup> In the event that following thorough audit the Commission concludes that there has been serious irregularity in connection with an actual expenditure indicated in an application for interim payment, and the given Member State has failed to take immediate adjustment measures, the Commission officially launches the procedure of suspending the payments.

<sup>8</sup> Environmental sector of Bulgaria, Czech Republic, Greece, Hungary (as a result of the irregularities identified in the public procurement procedure of the Csepel Wastewater Treatment Project in 2007), Ireland, Poland, Lithuania, Romania, Spain and Slovakia.

the public road sector of Bulgaria affected by suspension, in each case the deficiencies were considered moderate.)

With respect to the period following the accession, in the case of the Structural Funds Hungary's definitely improving trend can be observed among the EU 25. Overall, Hungary closed the period with good result. However, as far as the Cohesion Fund is concerned, the findings of the audits suggest that Hungary did not perform well; following the initial mediocre performance, Hungary slipped back to the last but one position by 2008.

### **Irregularities in international comparison**

In connection with the measures financed by the Structural Funds, the European Anti-Fraud Office (OLAF) paid audit visits to Member States on 41 occasions in 2008. In 23 cases it conducted on-the-spot checks (during which on-the-spot checks of various business organisations were carried out on 31 occasions), while in 18 cases the aim was different, e.g. collection of information or supporting the national authorities or judicial authorities.

In 2008, concerning the Structural Funds, Member States informed the Commission about irregularities affecting a total value of more than 528 million euros in 3869 cases. According to the information from Member States, repayments amounted to nearly 110 million euros. With regard to the Cohesion Fund, the Commission was notified about irregularities related to co-financed projects on 140 occasions, affecting a total 56 million euros of contributions.

The most important irregularities included the financing of non-eligible expenses and the breaching of the rules of public procurement procedures; these two categories occurred in nearly 75% of the cases. At the same time, Lithuanian authorities reported two 'presumable frauds'.

The data in the statistical report prepared by OLAF require careful interpretation because although the EU regulation defines the notion of irregularity<sup>9</sup>, it allowed a wide room for national regulation. This influenced the registration of the cases of irregularities in individual Member States as well as the content and quality of the data supply to the Commission.

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<sup>9</sup> 'Irregularity' shall mean any infringement of a provision of Community law resulting from an act or omission by an economic operator, which has, or would have, the effect of prejudicing the general budget of the Communities or budgets managed by them, either by reducing or losing revenue accruing from own resources collected directly on behalf of the Communities, or by an unjustified item of expenditure. (Council Regulation (EC, Euratom) No. 2988/95 of 18 December 1995)

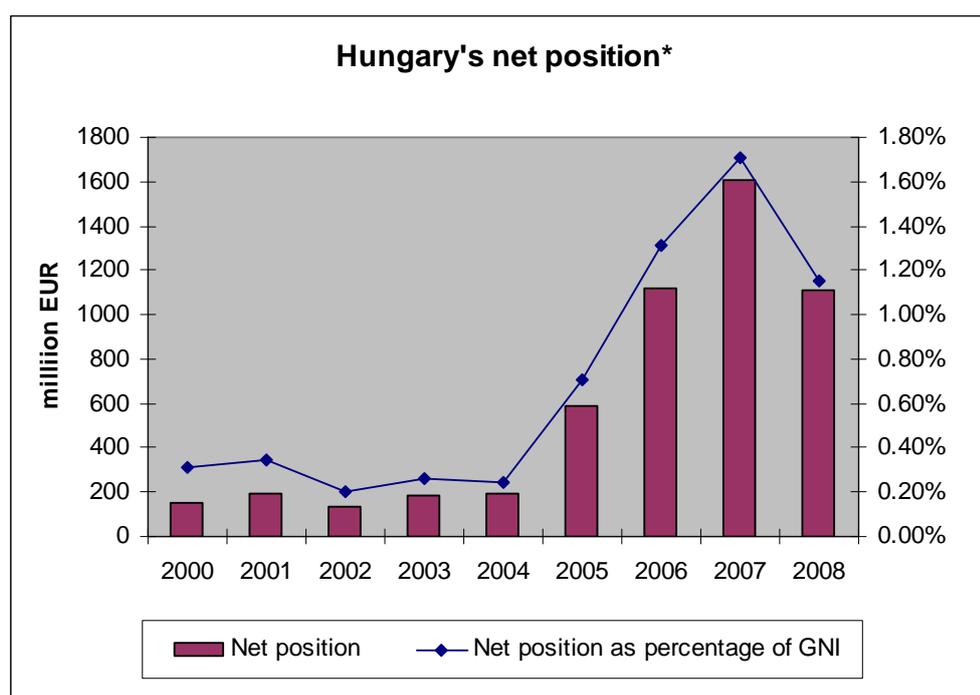
## 2. NET POSITION OF HUNGARY

Following the entry into the European Union, Hungary – as each Member State – has a payment obligation, the extent of which is determined in advance every year. Against the payments, there are resources that can be drawn from various funds and forms of subsidies (Annex No. 1).

The calculation of the so-called net position – with the corrections determined by the Commission – has to take account of the annual balance of the funds actually paid to Hungary from the EU budget and Hungary's contribution to the budget for the subject year.

Figure 1 shows that in terms of EU funds Hungary had a positive financial balance. Both in nominal terms and as a proportion of the GNI, the net position of Hungary increased considerably between 2000 and 2008. Accordingly, regarding the financial balance, Hungary has received more funds every year since its joining the EU than the amount of its contribution to the Community budget.

**Figure 1**

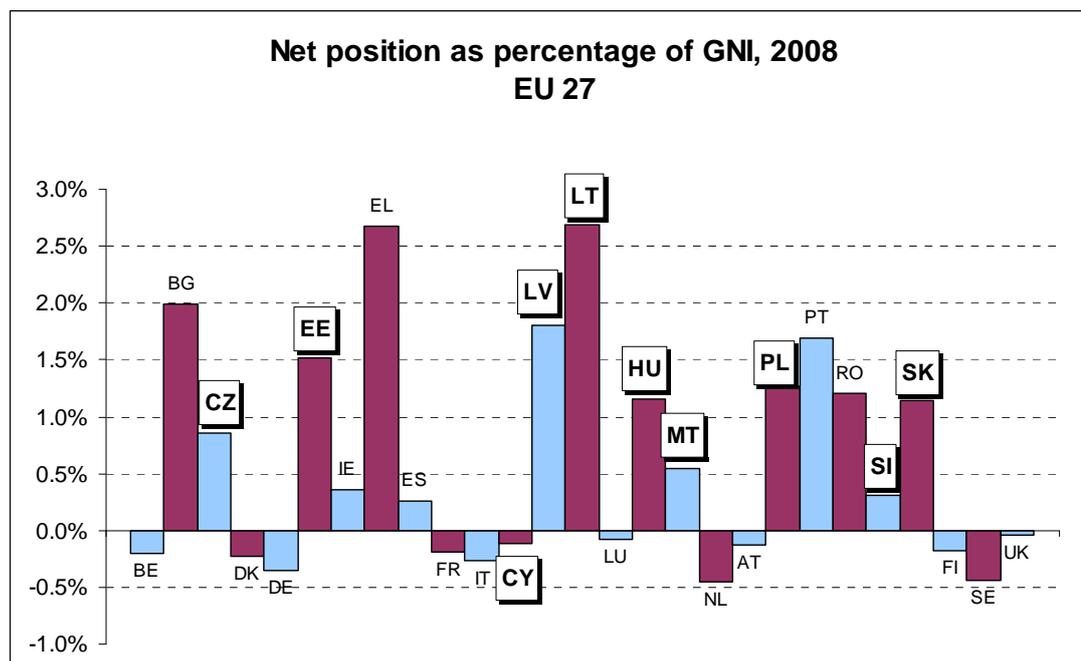


\* adjusted difference of the payment obligation as well as the subsidies and operating cost

Source: European Commission

In international comparison it can be observed that the net position of Hungary in 2008 – as a proportion of GNI – is somewhere in the middle among the 10 countries that joined the EU, at the level of Slovakia, behind the Baltic states and Poland (Figure 2).

Figure 2



Source: European Commission

### 3. COHESION POLICY 2007–2013

The objective of the cohesion (regional) policy is to strengthen economic and social cohesion through the reduction of disparities between the development level in various regions and the lagging behind of regions or islands that are in an unfavourable situation.

In the period between 2007 and 2013, an amount of 308.041 billion euros is available from the three funds<sup>10</sup> (at 2004 prices) supporting three new objectives: convergence, regional competitiveness and employment as well as European territorial cooperation. The objectives are implemented through the national strategic reference frameworks (the New Hungary Development Plan – NHDP – in Hungary) and the relevant operational programmes that serve their implementation.

In order to improve transparency and facilitate accountability, pursuant to the provision of the general EU regulation, the European Commission evaluated the implementation of cohesion policy between 2007–2013<sup>11</sup> based on the

<sup>10</sup> From 2007 on two structural funds (the European Regional Development Fund and the European Social Fund) and the Cohesion Fund remained. The financing facilities related to the common agricultural policy and the common fisheries policy were separated, and the European Agricultural Fund for Rural Development (EAFRD) and the European Fisheries Fund (EFF) were established.

<sup>11</sup> Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions: Cohe-

Member States' national strategic reports<sup>12</sup>. Upon the evaluation of the implementation<sup>13</sup> it was concluded that the programmes for the 2007–2013 period were launched successfully, but local-level payments are still in an early stage.

The evaluation pointed out that the measures aiming at the implementation of the adopted strategies and objectives were put into effect at an adequate pace, also complying with the drastic change that had taken place in the economic environment. During the period that elapsed since the beginning of the programming period, funding decisions have been taken for 27.1% of the projects. However, the progress achieved in implementation varied across Member States. With its 46.3% project selection performance Hungary was above the EU average. Between 2007 and 2009, EUR 44 billion were paid, partly for advances (EUR 16.7 billion) and partly for actual expenditures of programmes (EUR 23.3 billion).

The application of the cohesion policy economic stimulus package created at the end of 2008 (comprising increased pre-financing as well as new rules and simplifications facilitating the acceleration of payments) started to increase considerably, and Member States themselves also simplified their own rules.

Regarding the evaluation of the objectives of the cohesion policy the Commission came to the conclusion that the funds may contribute to EU-level objectives to a significant extent, and pointed out that the priorities of the EU play a central role in the programming of the cohesion policy.

However, in parallel with the favourable assessment, the Commission called the attention of Member States to the necessity of the acceleration of the selection of projects (especially those that facilitate recovery from the economic crisis) and the implementation of programmes as well as of providing co-financing necessary for the funding of the investment approved.

On the basis of the analysis of national reports, considering all Member States together, the Commission found delays or uneven progress in the railway sector, certain energy and environmental investments, the digital economy, social inclusion, management and capacity building.

#### **4. ANNUAL SUMMARIES PURSUANT TO ARTICLE 53B OF THE AMENDED EU BUDGET REGULATION**

As a result of measures taken with a view to obtain a positive statement of assurance ('Declaration d'assurance', statement of assurance) from the European Court of Auditors, the legal background of the European Union related to the

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sion policy: Strategic Report 2010 on the implementation of the programmes 2007–2013 COM(2010)110.

<sup>12</sup> Articles 29 and 30 of Council Regulation (EC) No 1083/2006 require the evaluation of the programme. The reports available for the public can be read at this website: [http://ec.europa.eu/regional\\_policy/policy/reporting/index\\_en.htm](http://ec.europa.eu/regional_policy/policy/reporting/index_en.htm) .

<sup>13</sup> The national reports were prepared with the deadline of 30 September 2009.

budget period of 2007-2013 already contains new (internal) control elements that are mandatory for all Member States. In accordance with Article 53b of the amended EU Budget Regulation<sup>14</sup>, in the case of the Structural Funds one of these elements is the annual summary prepared by the Audit Authority appointed by each Member State (in Hungary: the Government Audit Office, from 1 July 2010 on the Directorate General for Audit of European Funds) about the available audits and declarations and submitted to the Commission (“Annual Summary”).

The annual summary contains financial data as well as information (with regard to the 2000–2006 and 2007–2013 programming periods) on Member States’ management and control systems and on audits conducted within the competence of Member States for the subject year.

The annual summaries provide assistance to the European Commission in evaluating the management and control systems, obtaining evidence regarding the legality and regularity of expenditures and the issuance of the statement of assurance.

Member States had to submit their first annual summaries about the payments effected and audits conducted in 2007 to the Commission by 15 February 2008.

The European Parliament welcomed the initiative and requested the Commission to take efforts so that it would be possible to make these annual summaries public together with the Commission’s reply. The European Court of Auditors reviewed the 2008 annual summaries and concluded that not every Member State had met the requirements in line with the budget regulation, and the guidance of the Commission had not been complied with either. However, the quality of the analysis in the annual summaries improved compared to the previous year. It also established that the EU Commission had adequately supervised the preparation of the 2008 annual summaries, as well as revised and discussed with the Member States the Guidance that had been issued earlier for the compilation of the annual summaries about 2009. The Commission agreed that after the practice of three years it would be important to analyse the added value of the annual summaries and to examine to what extent the summaries could be utilised in this period.

Assessing the value increasing effect of the annual summaries, the European Court of Auditors encouraged the Commission to make the annual summary more useful as a part of the internal control system through the identification of common problems, possible solutions and best practice, and to use this information when practising its supervisory role. According to the analysis conducted by the ECA, in 2008 more Member States submitted data and analyses aiming at the identification of system deficiencies and horizontal issues as well as reporting on them, thus adding to the usefulness of the annual summary. In the field of cohesion, Directors-General used the data indicated in the annual summaries for their own evaluations regarding the national systems.

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<sup>14</sup> Council Regulation (EC) No 1605/2002, as amended.

The Directorates-General of the Commission also evaluated the annual summaries about 2007–2009 and concluded that in terms of the completeness of the information and data given in the summaries the majority of Member States generally met the minimum requirements set forth in the budget regulation and in the guidance issued by the Commission. Where information was missing, Member States were requested to submit additional information or a corrected annual summary.

Two Member States (Austria and Germany) did not submit their respective annual summaries about 2007. With regard to 2008, all the 27 Member States submitted their annual summaries; six of them did not meet the minimum requirements. Summaries for 2009 were received from all Member States, but four of them did not meet the minimum requirements (some of the required main elements, e.g. with regard to the programmes, funds and audit activities, were missing from the summaries submitted by the Member States).

The number of Member States attaching a comprehensive analysis or a comprehensive statement about the reliability of expenditures is increasing.

Nine Member States attached a comprehensive analysis about 2007, and 15 Member States did it for 2009. The summaries of seven Member States contained a comprehensive statement about the reliability of expenditures for 2007, and 9 Member States' summaries contained it for 2009. The Directorate General for Regional Policy used them for supporting its own evaluation of the national management and audit systems.<sup>15</sup>

Hungary prepared and sent to the Commission the annual summary on time, with the required content and in line with the criteria set out by the Commission, and also attached a comprehensive evaluation as well as a comprehensive statement about the reliability of expenditures.

The official submission of the information included in the summaries to the European Commission confirms the accountability and transparency of the EU funds used in the Member State, and allows the European Commission to obtain adequate evidence concerning the legality and regularity of expenditures.

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<sup>15</sup> Based on the Annual Activity Report 2009 of the Directorate General for Regional Policy of the European Commission.

## B. SUMMARY EVALUATION, CONCLUSIONS

### 1. FINANCIAL RELATIONS BETWEEN HUNGARY AND THE EUROPEAN UNION

#### 1.1. Domestic macroeconomic environment of using EU funds

The economic growth of the **European Union** declined considerably in 2008, which is primarily attributable to the impact of the financial crisis that had started from the United States. This unfavourable process resulted in a major fall in economic growth in 2009 (Table 3).

**Table 3**

**GDP and employment in the EU 27 and Hungary, 2000–2009**

	2000	2004	2005	2006	2007	2008	2009
<b>Annual GDP growth rate at constant prices (%)</b>							
EU 27	3.9	2.5	2.0	3.2	2.9	0.7	-4.2
Hungary	4.9	4.9	3.5	4.0	1.0	0.6	-6.3
<b>Employment rate (%)</b>							
EU 27	62.2	63.0	63.5	64.5	65.4	65.9	64.6
Hungary	56.3	56.8	56.9	57.3	57.3	56.7	55.4

Source: ECOSTAT

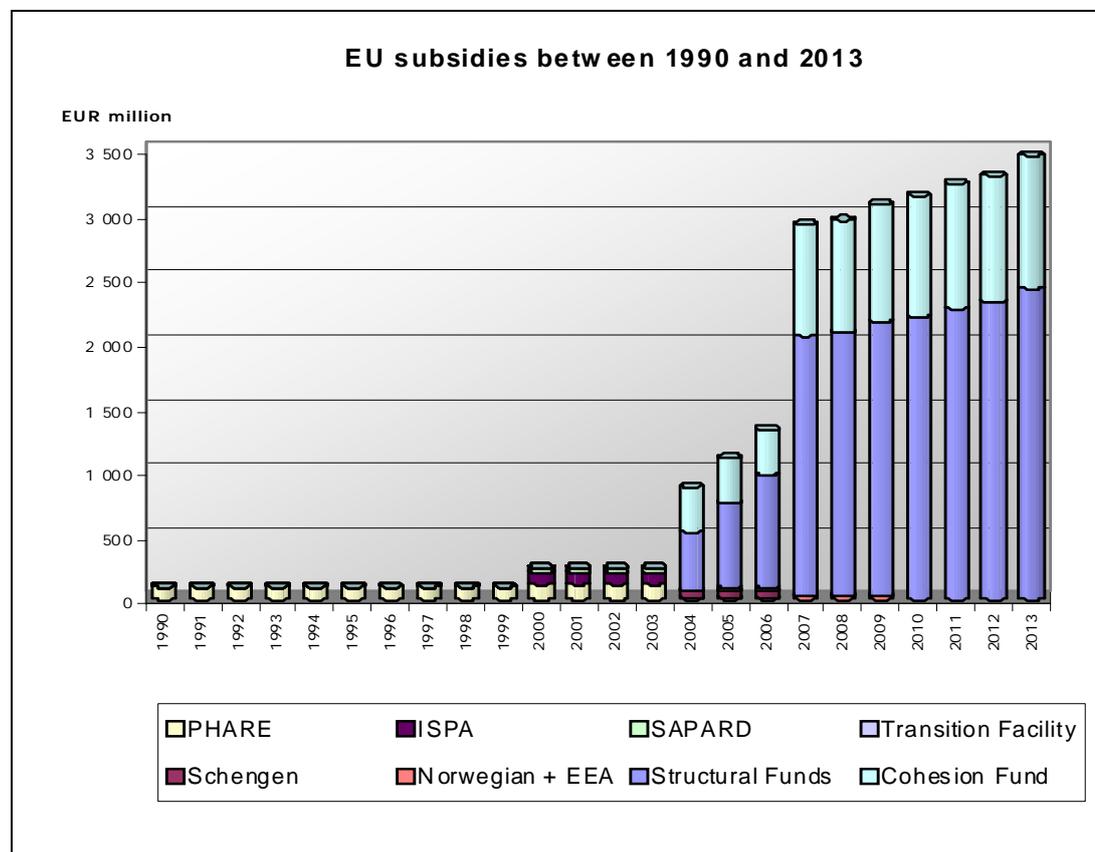
As a result of the fiscal consolidation in 2006, the convergence programme and the significant containment of domestic demand, by 2007 the **growth of the Hungarian economy** declined to 1.0% from the rate of 4–5% in earlier years. In 2008 this was exacerbated by a deterioration in external conditions and by the global financial and economic crisis. Hungary's situation was rendered even more difficult by the fact that the high general government deficit and the interest expenditures related to the significant government debt entailed a serious financing risk in a period when, due to the financial shock that became global, investors' willingness to take risks and the possibility of borrowing from abroad fell drastically. Under double (real economy and financial) pressure, in November 2008 the government agreed on a loan package of EUR 20 billion with the International Monetary Fund, the European Union and the World Bank. By 2009, economic growth reached a negative record (-6.3%).

In the 2004–2009 period a slight increase in **employment** was observed in the **European Union**. At the same time, **Hungary** failed to achieve a permanent increase in the **level of employment**; it continued to be low in European comparison. This unfavourable indicator was coupled with a steady rise in unemployment rate and marked disparities across regions.

## 1.2. Financial relations of Hungary and the EU between 2004 and 2009

The amounts of funds received from the European Union in each period increase continuously. The PHARE pre-accession assistance was granted to Hungary from 1990, and Hungary received further pre-accession funds (ISPA, SAPARD) from 2000 on. Starting from the year of accession, additional funding was provided from the Structural Funds and the Cohesion Fund as well as other sources (Schengen Fund, Norwegian Fund + EEA, Swiss-Hungarian Cooperation Programme). In the 2007–2013 programming period the earlier level of funding increased considerably. Figure 3 depicts the changes in the trend of financial resources between 1990 and 2013, excluding the agricultural subsidies. Partly or in full, these funds have appeared in the budget of the Republic of Hungary since 2004 (Annex No. 1).

**Figure 3**



Source: National Development Agency

**When examining the period between 2004 and 2009** of the EU transfers accounted for during the implementation of the budget of the Republic of Hungary and out of the budget, it can be concluded that following the amount of HUF 133 billion in 2004 **Hungary's contribution to the EU budget** stood at nearly the same level (between HUF 215 and 220 billion) between 2005 and 2008, before increasing markedly (nearly HUF 250 billion) in 2009. The internal structure of national contribution and traditional own resources as

well as the ratios of legal titles of payments changed to a lesser extent in the 2005–2007 period. Starting from 2008, the national contribution showed an increasing, while the traditional own resource showed a significant declining trend. In 2009, the increasing trend of national contribution continued, and the amount of the traditional own resource rose to the level of earlier years again.

The magnitude of the amount in 2004 was influenced by the fact that in the year of accession there was only a proportionate payment obligation, and the sugar levy appearing among the traditional own resources had to be paid in the next year. Accordingly, Hungary did not have this payment obligation in 2004.

Hungary's contribution to the EU budget – through the national contributions – increased year by year, the main underlying reason of which is that in parallel with the growth in gross national income the extent of the GNI-based contribution also increased. In 2009, the other reason for the increase in Hungary's payment obligation was the entry into force of the GNI contribution to be met for Sweden and the Netherlands and the related one-off additional payment. The VAT-based contribution and the change in the extent of the UK correction are attributable to the rules on their determination.

The funds related to EU relations and appearing in the budget of the Republic of Hungary (EU + national resources) and refunds showed a gradual increase in the 2004–2009 period, with a slight decline in 2007 and a major upswing in 2009. EU expenditures appearing in the budget and amounting to nearly HUF 127 billion in 2004 exceeded HUF 520 billion by 2008, and were close to HUF 870 billion in 2009. (These amounts also included the subsequent accounting for EU supports.)

The level of funding complied with the life cycles of the programmes. Following the peak in their utilisation in 2006–2007, the programmes of the 2004–2006 programming period (the National Development Plan and the National Rural Development Plan as well as the Transition Facility) gradually phased out in 2008–2009. Following the slow start in 2007–2008, the New Hungary Development Plan and the New Hungary Rural Development Programme related to the new programming period showed outstanding utilisation figures in 2009.

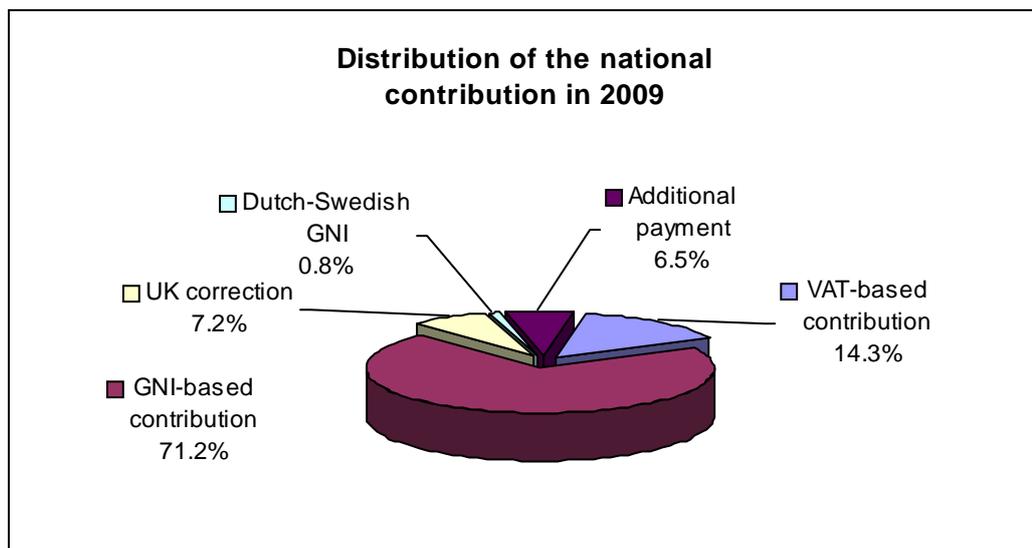
The use of the resources of the Cohesion Fund was in line with the unfavourable picture presented in the international comparison, according to which the Cohesion Fund projects progressed at a very modest rate: compared to the previous year, the ratio of payments increased only by 5% in 2009 (this ratio was between 13–23% for the other Cohesion Fund beneficiaries).

The level of out-of-budget agricultural subsidies varied year by year, but they show an increasing trend. The amount of the subsidies was greatly influenced by the financing requirement of the intervention. In the case of direct subsidies, the accounting rules allow accounting for the payments in the given year and in the following year as well. The differences in utilisation between years is mainly attributable to this.

### 1.3. Financial relations between Hungary and the EU in 2009

In line with Community and national legal provisions<sup>16</sup>, **HUF 223.7 billion was due to the European Union from Hungary**. It comprised HUF 32 billion VAT-based contribution, HUF 159.2 billion GNI-based contribution, HUF 16.1 billion UK correction, HUF 1.7 billion Dutch-Swedish GNI contribution<sup>17</sup> and the related one-off additional payment of HUF 14.5 billion (Figure 4 and Annex No. 1). In 2009, customs duties due to the EU amounted to HUF 24.8 billion, and the production charge was HUF 471.1 billion.

**Figure 4**



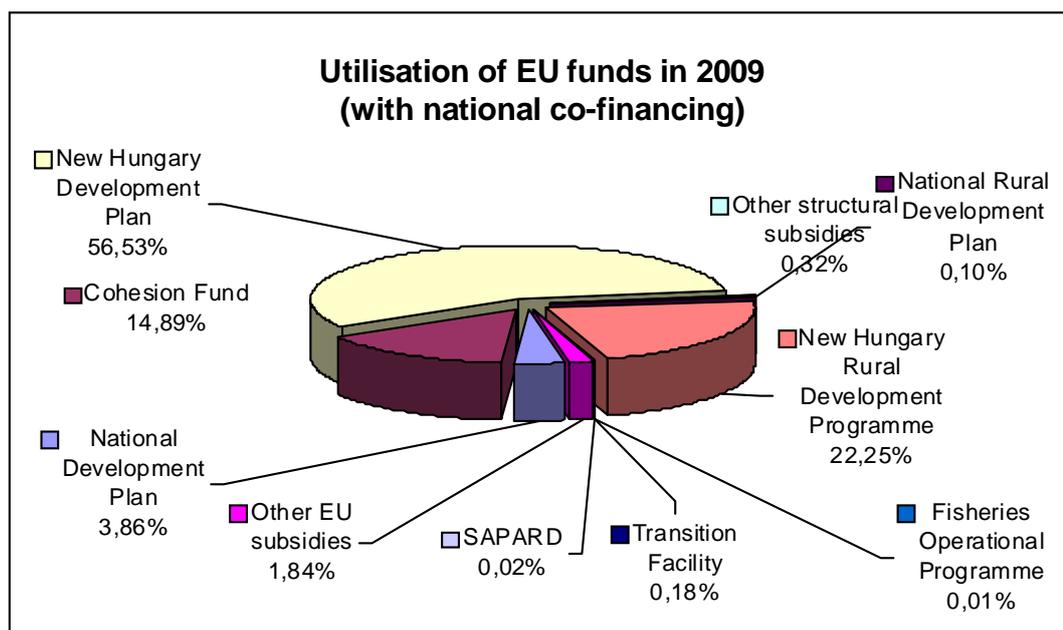
Source: SAO final accounts report

**The EU funds** (NDP, Cohesion Fund, NHDP, Other structural assistance, National Rural Development Plan, New Hungary Rural Development Programme, Fisheries Operational Programme, SAPARD, programmes of the Transition Facility and other EU financial assistance) **and the related national co-financing appeared** in the year 2009 budget of the Republic of Hungary **in an amount of HUF 829.2 billion**. EU funds appearing in the budget and the national co-financing amounted to HUF 602.7 billion and HUF 226.5 billion, respectively (Figure 5; Annex No. 2/A).

<sup>16</sup> The EU legal background regulating the system of own resources – and in line with that the domestic one – was amended as of 1 March 2009.

<sup>17</sup> Pursuant to the new EU regulation, the amount of the GNI allowance provided to the large net contributors of the EU (the Netherlands and Sweden) increases the other Member States' payment obligations. This GNI-based contribution payment obligation occurred retrospectively to 2007. The resulting difference had to be settled by Hungary in 2009 (starting from the date of entering into force of the EU regulation in Hungary) in the form of additional payment.

Figure 5



Source: SAO final accounts report

Overall, the fulfilment of appropriations containing EU funds was 16.1% below the planned amount, which means an improvement compared to the extremely high ratio (above 40%) in 2007–2008. In accordance with the findings of the audits, the magnitude of the shortfall shows that although the implementation of the programmes accelerated considerably, it is still below the desirable level.

**By the end of 2009, in the case of each operational programme the first payment requests were sent to the European Commission, which was a precondition for the Member State not to lose the already transferred advance.**

**Out-of-budget subsidies** (single area payment scheme, agricultural market subsidies and intervention buy-outs) amounted to approximately HUF 320 billion for 2009 (agricultural market subsidy: HUF 89 billion, single area payments: HUF 228.7 billion, intervention-related cost refunds: HUF 2.3 billion). This amount was prepaid from the Single Treasury Account by the Paying Agency and is subsequently refunded to the public finances by the European Union (Annex No. 2/B). The SAPS subsidy directly paid by the EU was complemented by a national subsidy (top-up) of HUF 87.5 billion funded from national resources.

HUF 36.8 billion appeared as revenue from the EU budget. This amount consisted of the HUF 157.0 million that originated as refund of production charges due to Hungary, the nearly HUF 8 billion received as customs duty refund and the HUF 28.6 billion received as subsequent refunds on EU subsidies, which was significantly (by nearly 50%) below the planned amount.

The failure to reach the planned sum was mainly attributable to the financial correction related to Metro Line 4 project. Moreover, the settlement of the final payment of the balance related to the closing of the NRDP (HUF 7.4 billion) did not take place because the transfer from the European Commission was received late, only at the end of the year.

#### **1.4. Funds directly managed by the European Commission**

In 2009, the European Commission recorded a total of EUR 3,794.4 million as identified payment in favour of the Republic of Hungary. This amount contained the paid subsidies broken down by budget expenditure heading<sup>18</sup>, i.e. all subsidies that are utilised with the participation of Hungarian public entities, through applications submitted directly to the European Commission, or the utilisation of which is related to the use of subsidies by Hungary. Its overwhelming majority was constituted by items included in the financial statement of the Republic of Hungary (planned in its budget and funded from the Single Treasury Account out of the budget). Funds spent on educational and training as well as on youth-related purposes were the two most important areas funded directly by the Commission. Direct payments in 2009 exceeded the level of the previous year by 74.1%.

In the area of education, the Lifelong Learning Programme and the Youth in Action Programme, which are being implemented at national level, are of key importance.

The national authority for the Lifelong Learning Programme in Hungary was the Ministry of Education and Culture, and the Ministry of Social Affairs and Labour for the Youth in Action Programme. The National Agency of the Lifelong Learning Programme was the Tempus Public Foundation under the supervision of the Ministry of Education and Culture like in the previous years. The National Agency assigned with the managing tasks of the Youth in Action Programme was the Mobility National Youth Service under the supervision of the National Employment and Social Office, which plays an integral role in national youth services and youth policy.

In 2009 and 2010, the Ministry of Education and Culture conducted audits in order to substantiate the issuing of the statement of assurance. As a result, the statement of assurance issued by the Ministry of Education and Culture in 2010 expressed, inter alia, that reasonable evidence was collected regarding the reliability of the financial systems and procedures of the Tempus Public Foundation that manages the Lifelong Learning Programme, and the funds had been used in line with the objectives, applying the principle of sound financial management. The statement confirms that the annual report of the Tempus Public Foundation truly reflects the activities performed, the financial statements draw a fair picture of the Public Foundation, the transactions are lawful, and the measures proposed earlier by the Commission were implemented in an adequate manner.

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<sup>18</sup> Sustainable growth, Preservation and management of natural resources, Citizenship, freedom, security and justice, the EU as a global player as well as Administration.

At European level, the indicative framework for the **Lifelong Learning Programme** for the seven-year period (2007–2013) amount to EUR 6,970 million. The total budget of the Youth in Action Programme for the 2007–2013 period is EUR 885 million.

## 2. THE NATIONAL SYSTEM OF CONDITIONS OF EU FUNDS

### 2.1. The national institutional system of EU subsidies

Hungary has set up the institutional system necessary for the reception and administration of the funds from the EU in accordance with EU regulations and taking account of the national legal regulations.

In this Summary, the participants in the institutional system are consistently described in the structure and with the names valid in the period under review, i.e. in 2009.

**In order to create an efficient institutional system necessary for the receipt and utilisation** of an increasing amount of funds arriving from the EU, as of 1 July 2006 the Government established the **National Development Agency** (NDA) as the general legal successor of the National Development Office. The managing authorities of the operational programmes of the new and earlier programming periods (NDP, NHDP) performed their tasks within the framework of the NDA<sup>19</sup>.

In addition, the responsibilities of the NDA covered the preparatory, organisational and coordination tasks related to the PHARE programmes and the Schengen Facility, the Transition Facility, the EEA/Norwegian Financing Mechanism and the Swiss-Hungarian Cooperation Programme. From 15 May 2008 on, the NDA was supervised by the Minister of National Development and Economy.

During the audit of the final accounts for 2008 the SAO concluded that in practice all the Managing Authorities operated in an organisationally separated manner, as independent departments. In practice, the harmonisation of the activities of the Managing Authorities of the Operational Programmes was not realised in 2009 either, in spite of the fact that the coordination related to the implementation of the NHDP was delegated to the powers of the vice president by the Operational and Organisational Rules.

The Managing Authorities managing the structural subsidies delegated a portion of their tasks to Intermediate Bodies. Subsidies from the Cohesion Fund were channelled through a three-level organisational system. In the case of the Cohesion Fund, the professional and financial administration of the subsidies was completely done by the Intermediate Bodies. The projects were implemented by Implementation Bodies.

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<sup>19</sup> The managing authority of the ARDOP and of the agricultural and rural development as well as fishing subsidies operated within the organisation of the Ministry of Agriculture and Rural Development in 2009.

The audit of the final accounts for 2009 concluded that, as in the previous year, some Managing Authorities relied excessively on the Intermediate Bodies, and delegated management and control functions of the activities under their own responsibilities to the Intermediate Bodies as well. Moreover, they conducted compliance audits to various extents regarding the performance of the tasks delegated to the Intermediate Bodies. Regarding the Cohesion Fund, the professional and financial administration of the subsidies was completely performed by the Intermediate Body. In practice, the Cohesion Fund Managing Authority did not perform any management or control functions regarding the activity of the Intermediate Bodies, only monitoring tasks.

For the standardisation of the financing of intermediate bodies, the system of the so-called SLAs<sup>20</sup> was gradually introduced starting from 2007. However, its standardisation failed to be realised, and no uniform practice was implemented in terms of the time horizon of the SLAs.

The objective of the SLA financing is performance-based, cost-effective task financing. During the year-end settlement based on the SLA, according to the evaluation by the Managing Authority, deficiencies in attending the tasks resulted in a decline in the success fee.

The evaluation preceding the review of the SLA system proposed the further development of the system with, inter alia, an amendment to the financing scheme, a precise definition of the expected services, an expansion of the capacities of the Managing Authorities dealing with the Intermediate Bodies and with the transformation of Intermediate Bodies into business associations.

**There was no major change** in the institutional system **in 2009**. However, minor organisational restructuring and changes in managerial positions took place in this year as well, and the Operational and Organisational Rules of the NDA were amended twice in 2009. These changes did not fundamentally affect the quality of the work done, although in certain cases the lack of continuity resulted in uncertainties.

In spite of the favourable changes experienced by the audits at several places, **shortage of human capacity and high fluctuation** continue to be problems unfavourably affecting the performance of tasks. The audits revealed the deficiencies of the performance of tasks attributable to the shortage of capacity and the fluctuation in personnel mainly in the areas of audits, financial processes and documentation. The insufficient staff number also led to delays in the payments of Transport Operational Programme resulting in an obligation of the Intermediary Body to pay default interest.

The audits pointed out that in order to ensure the transparency of financing regarding the human resources employed to perform activities related to the technical assistance allocations of EU funds, it is necessary to keep a precise record of the worktime used for the management of individual funds.

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<sup>20</sup> Service Level Agreement: the most important formal means of the Managing Authority to practice its management powers vis-à-vis the Intermediate Body.

Regarding the audit of the functioning of the institutional system the SAO **established that the operation of the controls was inadequate** (in most cases due to the deficiencies of financial management control and the Unified Monitoring and Information System), **which may have indirectly led to the unfavourable qualification of the reports**. As the defects were not revealed (by the internal controls), the issue of inadequate operation of financial management control is also raised. In terms of internal controls, one of the longest standing deficiencies is the shortage of human capacity of the **internal audit**.

According to the fundamental findings of the systems audits conducted by the Body Responsible for Issuing the Final Declaration/Audit Authority, the **organisational system** performs its tasks, but at the same time **risks** are perceived **in several areas**, e.g. the deficiencies related to the detailed regulation of the closing tasks of the operational programmes of the NDP of the 2004–2006 programming period and to the determining of deadlines and responsible persons. The final accounts audit for 2009 concluded that preparing the final reports by the September 2010 deadline required the stepped-up working pace of the institutional system in the case of all operational programmes.

The **National Authorising Officer's Office of the Ministry of Finance** (hereinafter: Paying/Certifying Authority) performed the duties of the paying and certifying authority in connection with the funds from the Structural and Cohesion Funds of the European Union, the Instrument for Pre-accession Assistance (IPA) programmes and the Swiss-Hungarian Cooperation Programme. In relation to the EEA/Norwegian Financing Mechanism and other instruments for assistance it performed the tasks laid down in the relevant international agreements and related to the financial administration, accounting records, cost verification and audit activities assigned to the scope of duties of the Ministry of Finance.

In addition to the above, it performed the financial administration, accounting and institution development tasks related to the pre-accession instruments and the Transition Facility assigned to the scope of duties of the Ministry of Finance.

The administration of the agricultural, rural development and fishing subsidies granted by the EU was performed by the Ministry of Agriculture and Rural Development as Competent and Managing Authority and by the Agricultural and Rural Development Agency as Paying Agency and Intermediate Body. The detailed presentation of the institutional system and the audit findings on its operation are included in Chapter 3.3 entitled 'Agricultural subsidies'.

## **2.2. National control and monitoring system of EU subsidies**

### **Control system**

Without prejudice to the European Commission's responsibility for the execution of the general budget of the European Communities, the financial audit of EU funds is primarily assumed by the Member States. Each and every

Member State is obliged to complete its own audit activities that assure the enforcement of the basic principles and achievement of the audit objectives.

In connection with attending the tasks, Member States have to comply with three levels of controls (so-called financial management control, systems audits and sample checks as well as the audit of closing cost declarations).

Being the financial and economic audit organisation of the National Assembly and the supreme financial audit institution of Hungary, the **State Audit Office of Hungary** is authorised to audit the entirety of public finances on one hand, and on the other hand it is actively involved in the protection of the financial interests of the Community by auditing the utilisation of EU funds and payments due to the Community.

Within the framework of the **public finances internal control systems** the Minister responsible for public finances is accountable for the regulation, development, coordination and harmonisation of financial management control and the internal audit system<sup>21</sup>.

For 2009, the relevant national legal regulations designated the **Government Audit Office** to attend the Audit Authority tasks regarding the subsidies financed from the European Regional Development Fund, the European Social Fund and Cohesion Fund and by the Solidarity and Management of Migration Flows Programme as well as regarding the Hungary–Croatia and Hungary–Serbia IPA Cross-border Co-operation Programmes and the European Territorial Cooperation programmes for the 2007–2013 programming period. In addition, regarding the 2004–2006 programming period, the Government Audit Office also conducted the audits – required by EU financial regulations – related to the Structural Funds, the Cohesion Fund, the EQUAL and the INTERREG IIIA Community Initiative Programmes as well as the audit of the utilisation of the European Union pre-accession instruments, the Transition Facility and the subsidies of the Schengen Facility. It conducts the audits of the projects supported from the EEA and the Norwegian Financing Mechanisms. The Government Audit Office is also responsible for the general financial audit of the Swiss-Hungarian Cooperation Programme.

Based on the EU regulation for 2007–2013, until 30 June 2009 the Government Audit Office completed the systems audits and sample checks for the reference period between 1 January 2008 and 31 December 2008. The methodology of planning project audits was modified. Accordingly, in the event that the number of payment requests does not reach the volume necessary for applying the monetary unit sampling method, non-statistical sampling takes place. According to the national regulation the tasks of the organisation responsible for issuing the final declaration were performed by the Government Audit Office in 2009.

In order to reduce the deficiencies experienced in the operation of the control system of EU funds, from 2008 on (regarding 2007 on the first occasion) the Commission ordered the Member States to summarise the available audit

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<sup>21</sup> Article 121/B of Act XXXVIII of 1992 on Public Finances.

reports, opinions, certificates and declarations and to compile a so-called Annual Summary by 15 February of the year following the year under review. Until 2010 the Government Audit Office compiled the Annual Summaries in Hungary (since 1 July 2010 it has been the task of the Directorate General for Audit of European Funds).

In the Annual Summary the Government Audit Office summarised the auditing activity for the individual programming periods. (The relevant findings are detailed in this Summary.) For the 2007–2013 period the Audit Authority issued an unqualified opinion only with regard to the State Reform Operational Programme-ESF and the Electronic Administration Operational Programme-ERDF programmes.

According to the Annual Summary, based on the results of the audit summaries, the opinion of the Government Audit Office is that ‘for the year ending on 31 December 2009 the management and control systems of the structural measures determined for the 2000–2006 and 2007–2013 periods comply with the relevant regulatory requirements and work efficiently. Accordingly, they constitute acceptable assurance that the expenditure statements verified for the Commission are correct, and consequently they constitute acceptable assurance that the underlying transactions are legal and regular’.

As from 1 July 2010 the government established the **Directorate General for Audit of European Funds**<sup>22</sup>. As the legal successor of the Government Audit Office, the Directorate General performed the audit authority tasks regarding the subsidies from the European Regional Development Fund, the European Social Fund and the Cohesion Fund as well as the audit tasks related to other EU and international funds, which had been the competence of the Government Audit Office.

The internal audit function set forth in the national legal regulations regulating the implementation was performed by the functionally independent internal audit sections of the organisations concerned.

**The Internal Audit Department of the National Development Agency** is responsible for the internal audit of the organisational units of the Agency (including the Managing Authorities) and for the audits at the beneficiaries and the organisations participating in the administration of the subsidies in connection with the use of international assistance as well as for keeping the records and coordination of audits conducted at the Agency by external audit organisations and – in certain cases – for the participation in the work of the irregularity committees.

The SAO audit of the final accounts repeatedly pointed out the high risk according to which, due to the amount, diversity and organisational features of the EU appropriations, there was an **extremely high disproportion** between the task volume and the human resource ensured for performing the task. Consequently, **the NDA Internal Audit Department was able to cover**

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<sup>22</sup> Government Decree No. 210/2010. (VI. 30.) on the Directorate General for Audit of European Funds.

**only a small portion of the designated audit area with its own capacity** – together with the involvement of external experts.

The **Ministry of Finance National Authorising Officer's Office** (NAO Office) – as Paying/Certifying Authority – plays a special role in the control system of EU funds. For the adequate certification of expenditures it was authorised to audit the financial management of the whole system. In addition to its other financial and certification activities, the Paying/Certifying Authority also carried out fact-finding visits and fact-finding missions in order to certify for the European Commission – in a well-founded manner – the efficient operation and compliance with the legal provisions of the management and control system of the organisations (Managing Authority, Intermediate Body) certifying the expenditures indicated in the cost declaration.

The SAO audit of the final accounts concluded that the internal audit of the NAO Office operated properly in terms of independence, regulatedness and purposefulness. However, it pointed out that the advisory activities performed by the internal audit carried a risk regarding the implementation of the Annual Audit Plan and the conflict of interest, and also the documentation of this activity was inadequate.

From 2007 on, based on the Cooperation Agreement concluded with the NDA, the **Hungarian State Treasury** performed ex-post audit on the processing by the intermediate bodies of the applications and invoices submitted by the beneficiaries as well as the regularity of recording the transactions in the Unified Monitoring and Information System. The Treasury also audited the payment forecasts prepared by the intermediate bodies.

In 2008, the Treasury completed the audit of the recording of more than 250 applications and projects in the Unified Monitoring and Information System. As a result, the regulatory background of the application and the uploading of the monitoring system improved. Complementing the capacity of the intermediate bodies, the Treasury participated in the on-site audit of nearly 300 projects.

In 2009, the activity was expanded to the exp-ost review of accounts and the audit of the documentation of applications. In this framework, commissioned by the managing authorities, the Treasury conducted the regularity audit of nearly 2100 applications and projects as well as the on-site audit of more than 200 projects.

Similarly to the experiences of earlier years, the findings concerning the **inadequate operation of the control functions** were formulated during the audits conducted in 2009 as well, which indicates that a further strengthening of the audit system is necessary, regarding the managing authorities and intermediate bodies in particular. **The unsatisfactory nature of the first-level audit of intermediary bodies and of the supervisory audits to be conducted by the managing authority carries a high risk in terms of the regular implementation/realisation of the programmes in line with the objective of the funding.** The audits stressed the **importance of reviewing** the first-level audits **by the managing authority**, since the first-level audits conducted by the intermediate body according to the rules should

detect the irregularities committed by the beneficiaries (e.g. the non-eligible costs).

With the involvement of the Treasury, the audits of the intermediate body by the managing authority strengthened in the meantime.

It is a continuous problem for the institutional system that the harmonisation of audits has not been attained, and the coordination of external audits (SAO, Government Audit Office, European Court of Auditors, European Commission) means a considerable burden.

**In order to reduce the burden on the audited institutions**, some auditing organisations (e.g. the SAO) introduced centralised document storage procedures, thus ensuring that a given document is collected from the audited institution only once, and it can be used by all auditing units within the organisation.

In 2009, the SAO launched an electronic audit documentation management system, which supports the documentation of audits according to standard principles. As a result of the central storage of audit documents belonging to a given audited organisation and the access to them by those who conduct the audit, the data supply burden on audited institutions also declined considerably, and it provided efficient help in the (repeated) utilisation and knowledge sharing accumulated during the audits.

The audit system of agricultural subsidies implemented at several levels and the experiences of its operation are presented in Chapter 3.3 entitled 'Agricultural subsidies'.

### **Monitoring system**

The audits concluded that in line with the provisions of the legal regulation about the setting up and operation of the monitoring system, the organisations participating in the management and utilisation of EU funds established the units responsible for the monitoring activities. The Monitoring Committees of the NDP and NHDP operational programmes were in operation, and the intermediate bodies adequately performed the project-level monitoring tasks within the prescribed legal framework. Within the framework of the Cohesion Fund monitoring activity, monthly review meetings, where the progress in projects was reviewed in detail, were held until the end of 2009. Monitoring Committee meetings were held twice a year.

The SAO audit of the final accounts established that the institutional system started to build out the **maintenance monitoring system**, although considered it necessary to **strengthen the system to keep the problems of the operating period at a manageable level**, in order to avoid future repayments due to irregularities.

## 2.3. National registration systems of EU subsidies

Since the operation of registration and monitoring systems through up-to-date and accurate data provision on financial management is indispensable for the reliability of the clearance of accounts with the European Union, as well as for the efficient utilisation of the funds, audits conducted in 2009 paid special attention to the audit of the operation of the monitoring system, especially that of IT systems supporting the settlements of EU Funds (Unified Monitoring and Information System and the Integrated Administration and Control System).

### 2.3.1. Unified Monitoring and Information System

Pursuant to the provisions of the EU regulation, Member States need to have developed IT systems that supply the government, the institutional system and the European Union with reliable data and information on the utilisation of Community funds. The relevant legal provisions require the application of the Unified Monitoring and Information System (UMIS) for keeping the records, while in the case of the INTERREG programmes and the European Territorial Cooperation the INTERREG Monitoring and Information System and the INTERREG 2007–2013 Monitoring and Information System system, respectively, have to be applied.

UMIS is a comprehensive system that supports both administrative and everyday management work, and monitors the progress of the financed projects from acceptance until payment, and even monitors the projects in the maintenance period.

Since the start of the development of the system (2003), UMIS has been developed and operated by Welt 2000 Ltd. UMIS consists of integrated system elements. The user functionality of subsystems was supported by modules (main logic function groups).

The audits concluded that **the UMIS basically played its part well related to keeping the records, but at the same time it had several deficiencies.** Inter alia, the UMIS statistics did not show the amount of outstanding liabilities, but the ‘open’ amounts that had not yet been accounted for the projects, and this also violated the principle of balance sheet authenticity. The amount of the commitment for the given year could not be determined either from the systems. Value date queries were available only in the data storage module. The reliability of the data content of the UMIS was reduced by the fact that **individual intermediate bodies uploaded the records in different ways and to various extent.**

The NAO Office **found the operation of the financing module** that supported the compilation of the drawings of EU funds, settlements of Community contributions and cost declarations, the making out of money orders as well as the recording of account statements and exchange rates **satisfactory.**

The NDA Internal Audit Department disclosed several deficiencies regarding the NHDP subsystem of UMIS, concerning the documentation of the eligibility

claim and the eligibility review system as well as the password requirements. Recommendations were made for the regular testing of the disaster recovery and for the proper storage and transportation of the backup cassettes.

The SAO audit of final accounts detected the **inadequate operation** of the control systems, which was attributable to the deficiencies of the UMIS, and **it resulted in an unfavourable qualification of the financial statements**.

The findings concerning the INTERREG Monitoring and Information System can be found in the chapter about the relevant programmes.

### **2.3.2. The monitoring system operated by the Treasury**

The Treasury Monitoring System (TMS; earlier National Support Monitoring System) has kept records of the data of the programmes implemented with budgetary subsidies since 1998. Following EU accession, programmes including EU funds also appeared in the system, and together with this the demand for data connection between the record systems of grant applications (mainly between the TMS and the Unified Monitoring and Information System) arose. The task of the TMS, inter alia, is to make business associations with public debt identifiable during the evaluation of applications.

Since the accession to the EU, data entries have been carried out not only by the Treasury's own staff, but also through electronic data transfer from other record systems. Accordingly, the updatedness, precision and reliability of the data content of the TMS greatly depends on the quality of the operation of the other record systems supplying data. The data connection system of the UMIS and the TMS was a problematic area in 2009 as well. Starting from October 2009 UMIS had not sent data to the TMS. Since early 2010, following the measures taken by the President of the NDA, the shortage of data decreased and the number of successfully transmitted data has increased significantly.

According to the information from the Hungarian State Treasury, which is responsible for the operation of the TMS, and in line with the statement of the NDA, the technical conditions of data exchange were given, but – due to the data quality and the loadedness of UMIS – UMIS failed to send data regularly, and data transmission was incomplete.

### **2.3.3. Integrated Administration and Control System**

Pursuant to the EU regulation on the common agricultural policy, Member States are required to develop an Integrated Administration and Control System (IACS)<sup>23</sup>, primarily for the management, registration and payment of land and livestock based direct subsidies, as well as for checking the eligibility for payments. The integrity of IACS is ensured by the fact that on

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<sup>23</sup> The framework of operating the IACS is determined by Council Regulation 3508/92 and by Council Regulations 1782/2003 and 73/2009 replacing the former; they render the operating of the integrated system mandatory for each Member State.

one hand it includes all those registration systems that are required for the implementation of the procedures, as well as procedures that serve the evaluation and control of subsidy applications submitted within the framework of community initiatives.

The IACS is a system that supports the basic activity of the Agricultural and Rural Development Agency (ARDA), i.e. the management of agricultural and rural development subsidies. The system is operated at the headquarters of the Agricultural and Rural Development Agency in Budapest. ARDA as Paying Agency met several accreditation criteria relying on the IT support provided by IACS.

The IACS managed the funds starting from the acceptance of the application through generating the bank transfer of the amounts of subsidies until the settlement with the European Commission. In certain cases even the receipt of the applications can be generated electronically, through the Internet by the proper identification of applicants and the interactive completion of the forms.

The development and IT support of the operation of the IACS was performed by Hewlett-Packard Hungary Ltd. In addition to the designated national and EU authorities, an independent quality assurance organisation, a Danish company also reviewed the IT support and development of the system. Within this framework, the complete spectrum of the development was subjected to sample checks, starting from financial management control at the developers until the participation in acceptance tests by end users.

The findings of the audits regarding the IACS are presented in Chapter 3.3 entitled 'Agricultural subsidies'.

#### **2.3.4. Accounting and registration systems**

The settlement and data supply obligation vis-à-vis the Minister of Finance has to be fulfilled on the basis of separately kept, double-entry accounting records on an accrual basis.

**Similarly to previous years, the full performance** of the tasks related to the closing of the accounts and preparing the financial statements **remains unsolved**, despite that the procedure was centralised and simplified in the new programming period.

**The closing tasks of the 2004–2006 programming period were in progress in 2009.**

With regard to the 2004–2006 programming period, the Paying Authority had to keep the accounting records relating to the Structural Funds and the Cohesion Fund, the managing authorities (intermediate bodies) had to keep the accounting records relating to the Structural Funds, while the Cohesion Fund intermediate bodies had to keep the accounting records relating to the Cohesion Fund, based on the relevant Guidelines published by the Ministry of Finance.

The accounting statements for 2004–2006 were completed and approved. The closing of the years 2007–2009 and the compilation of the statements were in progress at the cut-off date of the Summary.

In the 2007–2013 programming period, starting from 1 January 2008, the the obligation to keep the NHDP accounting records in connection with the tasks of managing authorities and intermediate bodies related to the administration of funds from the European Union was performed by the Hungarian State Treasury as a task delegated by the National Development Agency.

Book-keeping is performed by two organisations (by the Treasury regarding the economic events of the managing authorities and the intermediate bodies and by the NAO Office regarding the economic events of its own economic activity). When the period under review has elapsed, the two organisations concerned prepare a partial statement, from which the NAO Office compiles the consolidated and complete annual report regarding the NHDP.

Based on the accounting records kept by the Treasury, the latter prepared the partial statements at managing authority/intermediate body level for all the closed years before the closing of the SAO audit.

**The consolidated statement** for 2007 was approved in 2010. The consolidated statements for 2008 and 2009 were not completed by the time of closing the Summary.

The accounting records were up-to-date with regard to all instruments for assistance; minor corrections that had become necessary were carried out.

It is important to emphasise that the described deficiencies of the separated accrual-based book-keeping regarding the funds from the EU did not influence the keeping of the accounting records of public finances on a cash basis related to the funds from the EU and their national co-financing and the execution of the relevant final accounts, and they did not affect the completeness and reliability of the financial statement of public finances.

During the audit of the execution of the year 2009 budget of the Republic of Hungary, within the framework of the financial (regularity) audit, the SAO qualified the reliability of chapter-managed appropriations in the EU Development Funds chapter and compliance thereof with the provisions of the Act on Accounting and of Government Decree No. 249/2000. (XII. 24.) on the special features of reporting and book-keeping obligations of budgetary organisations.

The NDA prepared 31 independent reports on the utilisation of the chapter-managed appropriations of Chapter XIX ‘EU Development Funds’ by (operational) programmes/chapter-managed appropriations; the result of their aggregation is the consolidated statement of the chapter-managed appropriations. The final accounts audit formulated a separate opinion on each independent statement that was supported by the general ledger statement conforming to the operational programmes and was well separable accordingly. The summary of these opinions served as a basis for the SAO

opinion on the consolidated statement of chapter-managed appropriations 'XIX EU Development Funds'.

**Among the 31 reports prepared by the NDA there was no report that was completely in line with the regulations.** The SAO called the attention to 14 reports (on the 2007–2013 appropriations of the EEA Norwegian Fund, Swiss-Hungarian Cooperation Programme, Community Support Framework Technical Assistance, Implementation OP, EU large investment and complex programmes, EIOP, CF Transport, HRDOP, EQUAL, Social Renewal Operational Programme, Social Infrastructure OP, European Territorial Cooperation, INTERREG and INTERACT), while 13 reports (SFAO, Economic Competitiveness Operational Programme, Economic Development Operational Programme, CF environmental protection, Environmental Protection and Energy Operational Programme, Electronic Public Administration Operational Programme, Southern Transdanubia Operational Programme, Northern Great Plain Operational Programme, Southern Great Plain Operational Programme, Northern Hungary Operational Programme, Central Hungary Operational Programme, RDOP and ARDOP) were given a qualified opinion. Four reports (Transport Operational Programme, State Reform OP, Central Transdanubia OP and West Pannon Operational Programme) were rejected by the SAO because they did not provide a reliable and fair picture of the material and financial situation.

The Agricultural and Rural Development Agency had to perform the settlement of the agriculture-related funds that were transferred to Hungary and spent (and also of the unused amounts) with the European Commission with separated accrual-based double-entry accounting records kept in line with the principles set forth in Act C of 2000 on Accounting. Following the publication of Government Decree No. 82/2007. (IV. 25.) on the development of financial, accounting and control systems and rules of procedure for programmes and measures financed by the European Agricultural Fund for Rural Development, the European Fisheries Fund and the European Agricultural Guarantee Fund, the Ministry of Agriculture and Rural Development, the Agricultural and Rural Development Agency and the Hungarian State Treasury signed an agreement on performing the financial, account management, transfer and accounting tasks related to the measures financed by the EAFRD, EFF and EAGF.

## **2.4. Irregularity and claims management**

In the case of programmes under shared management the Member State is responsible, inter alia, for the investigation and management of irregularities and other abuses related to EU funds as well as for the implementation of the relevant and required correctional measures.

In the field of irregularity and claims management, different rules prevailed in Hungary in the civil law legal relationship at the NDA, which managed the Structural and Cohesion Funds, and in the administrative legal relationship at the Agricultural and Rural Development Agency, which managed the agricultural subsidies.

Regarding the Structural and Cohesion Funds the relevant national regulation delegated the management of irregularities to the powers of the managing authorities. The records were kept in the Unified Monitoring and Information System. The managing authority sent a report in a determined format on the irregularities found, the measures taken and their outcomes to the Paying/Certifying Authority, which then forwarded it to the OLAF Coordination Office for submittal to OLAF.

When providing the EU subsidies, the procedure of ARDA was based on the rules of the administrative proceeding, and the management of irregularities was embedded in the process of case administration. No separate records of irregularities were kept. ARDA considered only those cases as irregularities where final, enforceable decisions demanding the repayment of the subsidy were taken as a result of the irregularity. ARDA reported on the irregularities from its Integrated Administration and Control System (IACS) to the OLAF Coordination Office.

The irregularity reports prepared on the basis of the irregularities managed in the institutional system of pre-accession instruments, subsidies granted within the framework of structural policies and agricultural subsidies were forwarded to OLAF by the OLAF Coordination Office.

In most cases the irregularities were discovered during the first-level audits usually in the course of checking the documents/invoices, during on-site audits or the audit of the public procurement procedure.

The most typical irregularities committed by beneficiaries were the violation of the act on public procurement and of EU directives, starting the projects prior to submitting the application, breaching the equal conditions of competition during project implementation, fraud, submittal of false or irregular documents, non-eligible items, lack of project-level separated financial records, inadequately implemented project, deviation from the subsidy contract without notifying the intermediate body, accounting for non-eligible costs in the project and the underperformance of the indicators.

Between 2005 and 2008, national EU-related institutions reported broadly the same number and value of irregularities to the OLAF, before a **sudden upswing took place in 2009 mainly in the amount affected by irregularities**, because high-value irregularities were detected in the NHDP as well. Almost the whole amount affected by the irregularity in excess of HUF 6 billion reported with regard to the programmes of the NHDP was attributable to one irregularity of the Transport Operational Programme. The changes in the number of irregularities are shown in Figure 6 below.

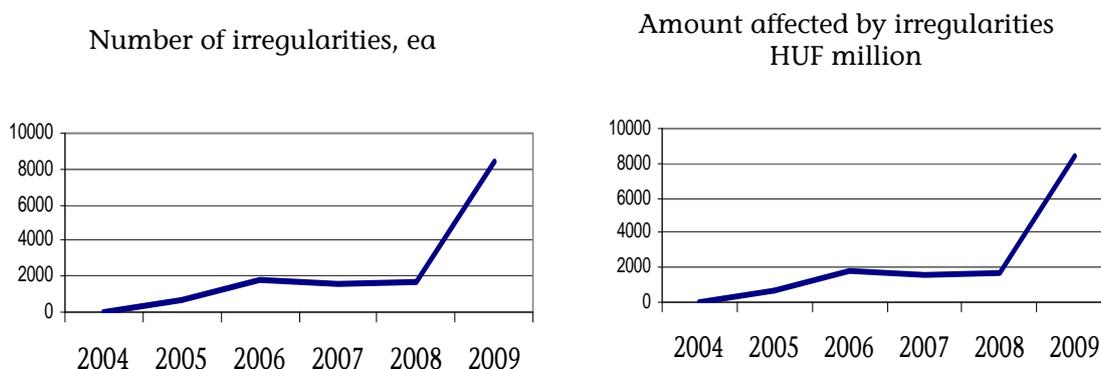
The SAO report on irregularity, debt and claims management<sup>24</sup> **concluded that the process of irregularity and claims management** for the 2007–2013 period **was basically regulated. However, several deficiencies were found with regard to keeping records of and regulating the irregularities.**

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<sup>24</sup> Report No. 1010 on the audit on the processes of managing irregularities, debts and financial claims relevant to the utilisation of EU funds.

Figure 6

### Changes in the number and amount of irregularities



Source: Hungarian Customs and Finance Guard OLAF Coordination Bureau

The transparency of the spending of EU funds was impaired by the fact that financial corrections and reallocations that were performed as a result of EU audits, entailing several billions of forints of additional funding for Hungary's budget (e.g. the Budapest Wastewater Treatment Plant, Metro Line 4 and the projects aiming at easing the burden on the M0 and the No. 21 main roads), were not managed and kept records of as irregularities.

In the event of applying the civil-law procedure, during the appeal proceeding related to the irregularity decision it was not clarified which court – the administrative or the civil court – had powers to act. In the case of the administrative procedure the possibility of lodging an appeal was solved both in the first and second instances.

The effectiveness of irregularity management was adversely affected by **the time-consuming nature of the irregularity procedure (varying between 4 and 509 days). The narrow scope of financial and legal opportunities** set forth in national legal regulations **weakened the retaining force that prevents irregularities**. Contrary to the possibility granted by the EU regulation<sup>25</sup>, the national regulation (Government Decree No. 281/2006. (XII. 23.)) did not specify the applicable sanctions. The sanction primarily applied in practice was the termination of the agreement.

**The reporting system was a critical area of irregularity management.** The audits revealed that **on several occasions the reports were incorrect and incomplete, contained numerical errors**, and/or were sent late.

<sup>25</sup> The sanctions that can be applied are specified by Article 5 of Commission Regulation (EC) No 1828/2006 of 8 December 2006 setting out rules for the implementation of Council Regulation (EC) No 1083/2006 laying down general provisions on the European Regional Development Fund, the European Social Fund and the Cohesion Fund and of Regulation (EC) No 1080/2006 of the European Parliament and of the Council on the European Regional Development Fund.

As a result of the **lack of a precise definition of irregularity, various practices evolved** what cases had to be handled within the framework of an irregularity procedure and what cases had to be reported on the basis of the procedure.

The full introduction of the electronic data supply system required by the Commission (Irregularity Management System) was hindered by the fact that the implementation of the IT connection with the aim to avoid recording the data in two systems (UMIS and Irregularity Management System) is expected only in the future.

Based on the report of the SAO on irregularity, debt and claims management, between 2004 and 2009 a Member State liability of HUF 4.79 billion (EU fund) was incurred at the NDA because of the procedures and provisions of law it applied (not attributable to the beneficiary) and that were classified by the Commission as deviating from the EU regulation. This amount was a financial correction because of expenditures that are related to structural subsidies and cannot be accounted for (VAT, procurement of equipment), which had to be paid from budget resources.

In the period between 2004 and 2009, the amount of claims of the NDA from beneficiaries due to irregularities was HUF 25.6 billion (EU fund), HUF 6.5 billion of which was related to structural subsidies and HUF 19.1 billion to Cohesion Fund subsidies.

**The 43.1% recovery rate corresponding to the EU level** (fluctuating between 40–44%) varied across programmes, remaining somewhat below the average in the case of the NDP (35.9%), while it amounted to 62.5% in the case of the PHARE. The **NDA did not write off any claims**; complete regulation and rules of procedure necessary for its qualification and writing off were not available.

Between 2004 and 2009, a Commission withdrawal and Member State liability of HUF 3.64 billion (EU fund) was incurred at the Agricultural and Rural Development Agency because of the procedures it applied and that were classified by the Commission as deviating from the EU regulation. The claims of ARDA from beneficiaries amounted to HUF 7.5 billion (EU fund) between 2004 and 2009.

HUF 2.7 billion of the claims of HUF 7.5 billion were reimbursed before the end of 2009, i.e. the recovery rate was 36% in the case of agricultural and rural development subsidies. This was close to the rate corresponding to the EU level in 2008 (37.5%), but fell short of the EU values of the last ten years (between 40–55%).

The final accounts audit for 2009 concluded that the balance sheets contained claims with regard to several operational programmes that had already been accounted for during 2009. This is attributable to the imperfections of the IT systems supporting the accounting and the deficiencies of the internal control system.

### 3. MAIN FINDINGS AND CONCLUSIONS OF AUDITS ON THE UTILISATION OF EU FUNDS IN 2009

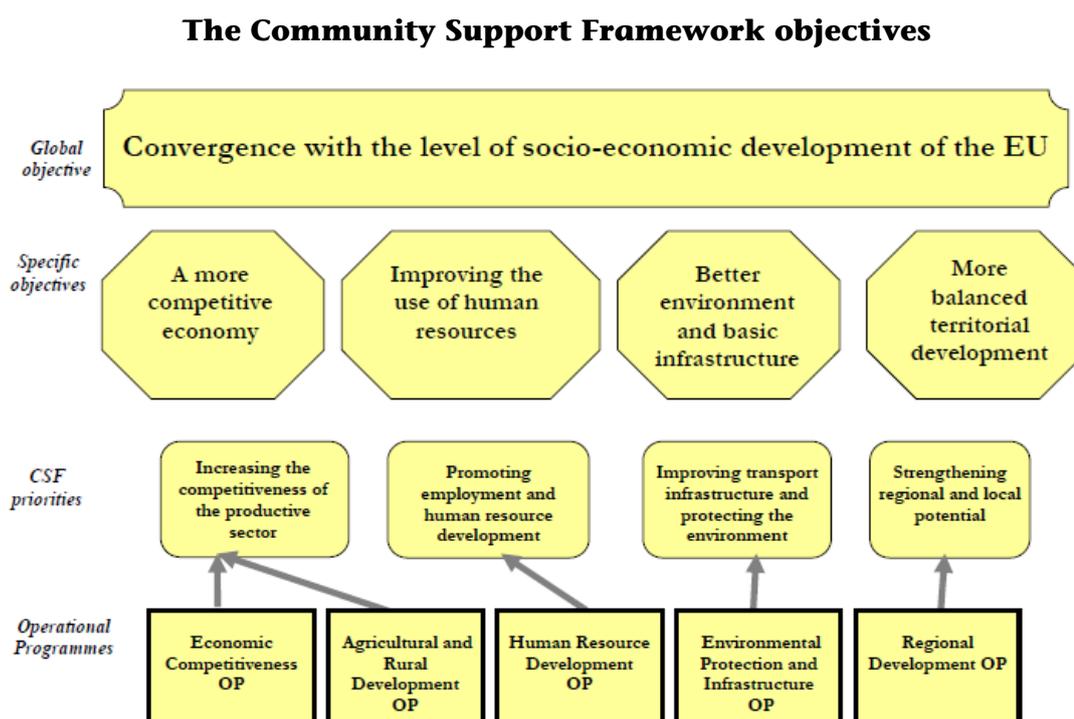
#### 3.1. Funds available in the 2000–2006 programming period

##### 3.1.1. National Development Plan

Hungary has been receiving funds from the so-called Objective 1 of the Structural Funds of the European Union with the aim of facilitating the development and structural transformation of the economically less developed regions.

The strategic plan of the utilisation of the funds, the National Development Plan (NDP) and its financial framework, the Community Support Framework is presented in Figure 7 including the general and specific objectives, and the four sectoral and one regional operational programmes serving the attainment of the objectives.

**Figure 7**



Source: National Development Agency

An allocation of EUR 2,696.2 million (HUF 687.5 billion) was available for the five operational programmes for the period between 2004 and 2006 in total<sup>26</sup>;

<sup>26</sup> The amounts of funding were converted at an exchange rate of HUF 255 per EUR, with the exception of the amounts requested from and transferred by the European Commission. Where there is no separate breakdown, the amounts of funding include Community, national central and national local funds as well.

out of which the EU contribution amounted to EUR 1,995.7 million (HUF 508.9 billion).

Following the announcement of the calls for proposals of the National Development Plan in January 2004, 42.8 thousand applications for grants were received. The value of commitments (amounts contracted in subsidy contracts by the Managing Authority) amounted to HUF 727 billion upon the financial closing of the programme, supporting nearly 20 thousand applications.

On 30 April 2004, the Hungarian State signed a credit line agreement amounting to EUR 445 million with the European Investment Bank. This credit line served the purpose of funding the central budget portion related to the Structural Fund subsidies of the 2004–2006 financial period with regard to the Operational Programmes of the Community Support Framework (except for ARDOP). The total credit line was drawn by March 2008.

On the basis of the submitted interim payment requests, the European Commission financed the programmes up to 95% of the allocation; the remaining 5% will be transferred after the financial closing.

In order to increase absorption, Hungary submitted a request to the Commission asking for an extension of the deadline of the subsidisation of the expenditures related to the ECOP, EIOP, HRDOP, ARDOP and EQUAL Community Initiative until 30 June 2009. In its decision, the Commission permitted the extension of the accountability period.

Accordingly, the Operational Programmes of the NDP were closed in two stages. The closing documents (closing implementation report, closing cost statement, closing statement and final declaration) of the RDOP were sent to the European Commission before 31 March 2010, while the closing documents of the ECOP, EIOP, HRDOP and ARDOP were sent before 30 September 2010.

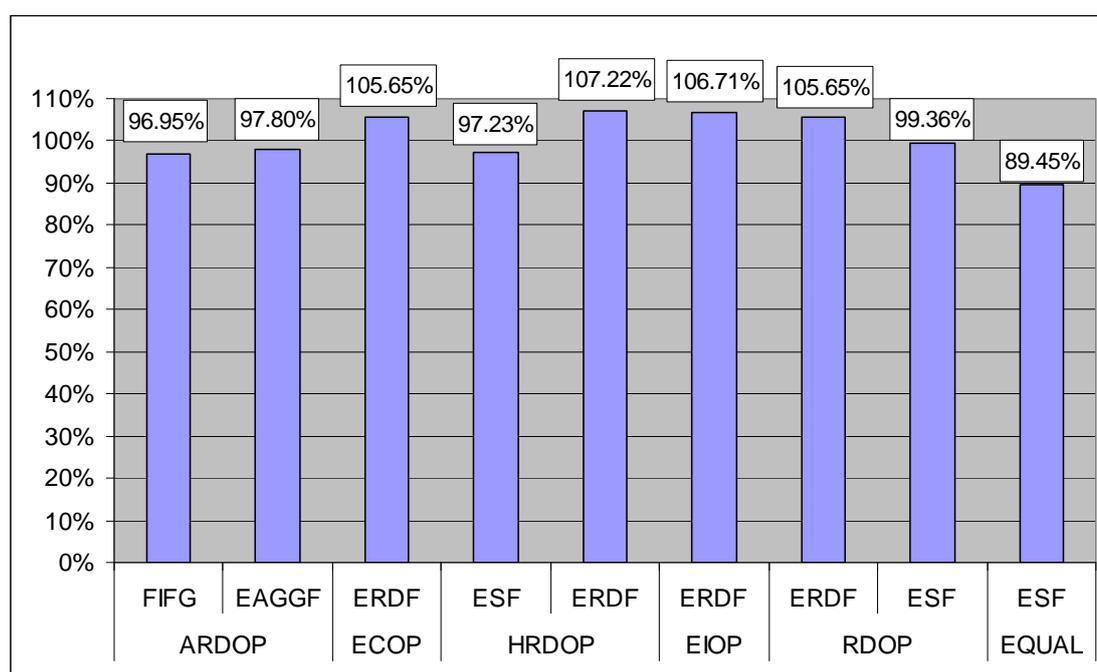
**From a financial (absorption) point of view (taking account of the closing data of the operational programmes), the implementation of the National Development Plan can be considered effective.** All in all, the NDP absorption exceeded 100%, a major shortfall was only experienced in the case of the EQUAL Community Initiative (Figure 8). Absorption was above 100% in the case of several programmes (ECOP, HRDOP–ERDF, RDOP–ERDF), but the European Commission provided the funds only up to the amount of the allocation; commitments exceeding the allocation were financed by the national budget. The favourable financial performance was facilitated by the so-called 10% flexibility rule, which allowed the reallocation of measures within the operational programme (the so-called well-performing measures offset the shortfalls of worse performing ones).

In the closing implementation reports the managing authorities presented the fulfilment of the indicators that ensure the monitoring of the implementation of the operational programmes. The programme- and project-level indicators modified during the implementation period (in several cases to a large extent)

were typically realised<sup>27</sup>. However, upon analysing the realisation of the quantifiable indicators it should be taken into account that their review became necessary in the case of all operational programmes. External evaluations concerning the operational programmes concluded, inter alia, that the programme-level indicators did not reflect the measures covered by the operational programme, the initial and target values had not been determined, and some of the indicators were not suitable for quantifying the results.

**Figure 8**

**Absorption of the NDP Operational Programmes and the EQUAL Community Initiative**



Source: NDA – closing implementation reports of the Operational Programmes

The experiences of the evaluations regarding the indicators may largely contribute to the efficient planning of the next, 2014–2020 programming period, which will start in the near future.

The Government Audit Office completed the **2009 systems audit** of the operational programmes. During the audit it examined the preparations for closing the operational programmes, the monitoring of the implementation of the recommendations made during earlier audits and the compliance of irregularity management.

The systems audit found regulatory deficiencies in connection with the closing of HRDOP and EIOP. In the case of ECOP and EQUAL the responsible institutions basically created the foundations for the regular and efficient

<sup>27</sup> The indicators were revised in the case of all operational programmes and their definitions, contents and target values were amended as necessary.

performance of the closing tasks. Concerning EIOP and HRDOP, the implementation and documentation of the measures undertaken during earlier audits were not completely ensured. In connection with the irregularity procedures, shortcomings of the reporting system were pointed out with regard to HRDOP and EIOP. With respect to ARDOP, minor shortcomings were detected regarding the administration of the closing, the monitoring of measures and irregularity management. In the opinion of the Government Audit Office, irregularity management implied a high risk from the aspect of programme closing.

Concerning the operational programmes and the EQUAL Community Initiative, the amounts affected by irregularity during the sample checks conducted between 2005 and 2009 did not reach the 2% materiality threshold (of all the audited costs) applied on the basis of the audit methodology.

The audit prior to the issuance of the final declaration established that, on the whole, the measures taken in order to eliminate the deficiencies found during earlier audits had been realised, and reasonable evidence was available regarding the legality and regularity of the transactions closed within the framework of the programme.

In the case of ECOP, the measures related to earlier audits were only partially implemented. However, this deficiency did not affect the process of closing.

The audit concluded that the final balance transfer documentation submitted by the Paying Authority and the data in the final implementation report compiled by the Managing Authority as well as in the final project list that is a part of the former and in the statement prepared about the reclaiming of the amounts affected by the irregularity are real and reliable.

With respect to EIOP, from the aspect of the closing, the audit considered that the deficiencies found in the implementation of Article 4 checks implied a medium risk, while irregularity procedures and the practice related to decisions implied a high risk. In the case of ECOP, on the accounting date of the final balance transfer documentation 60 irregularity procedures (with possible financial consequences) were still in progress.

In consideration of the deficiencies found in irregularity management and the findings of the audit preceding the closing in connection with two (unclosed) projects, the Body Responsible for Issuing the Final Declaration issued a qualified final declaration regarding EIOP. The audit found the administration of ECOP adequate, but – taking into account the 60 unclosed irregularity procedures still in progress, their possible outcomes and the potential financial consequences – a qualified final declaration was issued. As a result of the 57 pending cases (of which 52 are irregularity procedures) and their financial risk, a qualified final declaration was issued with regard to ARDOP–EAGGF.

Based on the audits conducted and the contents of the documents examined (final implementation report, the project list and irregularity list constituting a part of the former as well as the final cost statement), the Body Responsible for Issuing the Final Declaration found the implementation to be in order in the

case of ARDOP–FIFG, RDOP, HRDOP and EQUAL, and **issued an unqualified opinion.**

The Hungarian Customs and Finance Guard deemed it highly risky that the irregularity cases and reports ‘are put in order’ mainly as a result of the audit related to the closing and conducted by the Body Responsible for Issuing the Final Declaration, which will presumably elicit increased audit activity by the EU.

The audits conducted and closed by the EU (European Commission, European Court of Auditors) in 2009 drew conclusions in connection with the administration of public procurements and the eligibility of costs regarding EIOP, while concerning HRDOP they found a minor deficiency related to the recording of the amounts received from the reclaiming.

In addition to the evaluation of the absorption, i.e. financial, realisation of the NDP – with regard to the closing as well – **increasing emphasis has to be put on the evaluation of achieving the effectiveness objectives and on drawing the conclusions.** The effectiveness of the programmes can only be assessed following the closing of the complete closing processes by the EU Commission.

**Based on currently available data it is foreseeable that the key objectives drawn up in the strategy papers (strengthening of territorial cohesion, economic growth and expansion of employment) and the comprehensive objectives (economic growth and stimulating the increase in employment) are not expected to be achieved in view of, inter alia, the unfavourable changes in the external environment, the global economic crisis, the fiscal adjustment as well as the effects of the convergence programme.**

The evaluations highlighted that **the achievement of the development objectives had a positive impact in many partial areas, but unfavourable findings were formulated in connection with the administration of the programmes** (tendering system, indicators, success of horizontal objectives).

### **3.1.2. Cohesion Fund**

With the start of the 2007–2013 programming period, the internal structure and name of the Managing Authority and the Intermediate Bodies of the transport sector changed. In 2009, the tasks of the managing authority were performed by the Environmental Operational Programmes Managing Authority operating within the National Development Agency, being also responsible for the implementation of the Environment and Energy Operational Programme.

In the case of environmental programmes, the role of the Intermediate Body was played by the Development Directorate of the Ministry of Environment and Water, while in the transport sector by KIKSZ Transport Development Plc. (KIKSZ Plc.).

The Government Audit Office, as the Body Responsible for Issuing the Final Declaration, conducted the systems audits and the 15% audits (sample checks) as well as the audits necessary for issuing the final declaration related to the final settlement of projects. The internal audits of the Managing Authority, the Paying Authority and the Intermediate Bodies were performed by the internal audit units set up within the organisations. In addition, for the adequate verification of expenditures, the Paying Authority was authorised to audit the whole system with regard to the financial administration.

In the 2000–2006 period, Community funding worth EUR 1,500 million available from the Cohesion Fund may be used until 31 December 2010. In 2010, regarding certain environmental projects that were launched in 2004 the Managing Authority requested the European Commission to grant extensions until 31 December 2011 and 31 December 2012; at the cut-off date of the Summary no information on the decision was available.

The fulfilment of payments of EU funds for the projects has to be closed by 31 December 2010; in the event of any delay beyond the deadline the remaining amount will be incurred by the national budget. Upon closing the projects, pursuant to the financing rules relevant to the Cohesion Fund, the last 20% of the EU subsidy is retained by the EU Commission. The condition of transferring the last 20% of the EU funding to Chapter XLII 'Main revenues of the central budget' during the years 2010–2012 is the approval of the closing reports by the EU Commission.

In 2009, total payments significantly exceeded the original expenditure appropriations planned in the budget. Compared to the original appropriation of HUF 59.5 billion, there was a substantial fulfilment of HUF 123.4 billion, of which the contribution by the EU amounted to HUF 67.4 billion.

Continuing the growth of earlier years, the projects supported from the Cohesion Fund attained the following results until the end of 2009:

- the commitment by implementation contracts reached 93% of the expected total cost (88% of the EU subsidy part) of environmental projects and 83% of transport projects (82% of the EU subsidy part);
- 72% of the Cohesion Fund allocation (67% of the EU subsidy part) was paid to the contractors proportionately to their performance in the environmental sector; the relevant figure for the transport sector is 85% (84% of the EU subsidy part).
- As a result of the settlement of the subsidies paid with the European Commission, funds amounting to a total EUR 161.4 million were transferred in 2009, corresponding to a drawing of HUF 45.3 billion (calculated at an exchange rate of HUF 280.6 per EUR). Based on cumulative data, until 31 December 2009 the transfer request submitted in the environmental sector to the EU Commission amounted to EUR 377.92 million, of which EUR 345.42 million (49% of the total eligible costs, 45% of the EU subsidy part) rolled in to the national budget before the end of 2009. The cumulative transfer request submitted in the transport sector amounted to EUR 420.79 million, of which EUR 390.10 million (57% of the total eligible costs, 53% of the EU subsidy part) rolled in to the national budget.

In the Cohesion Fund administrative process, the **year 2009 systems audit** focused on the preparation for closing the projects and on the compliance of irregularity management. The systems audit concluded that the management system of the Cohesion Fund functioned in line with the objective of the subsidies, but it also revealed several high-risk systemic errors. The deficiencies of the preparation for the closing of projects, of irregularity management and of the audit trail of the managing authority jeopardised the process of closing the projects, and posed a risk to the issuance of the final declarations on time. The institutional system failed to completely comply with the closing deadlines; the internal regulations of several organisations were not in line with applicable legislation. Systemic deficiencies arose in connection with the operational manual and the audit trail at the intermediate bodies and at one beneficiary. The level of uploadedness of the Unified Monitoring and Information System was inadequate. The irregularity procedures were prolonged in most cases.

In the **sample checks** the ratio of errors regarding the audited amounts in terms of the suspicion of irregularity reached 18.2% (as opposed to the 2% determined in the methodology). Irregularity was suspected by the audit in the case of four projects; substantial errors occurred primarily in connection with public procurement procedures.

During 2009 the **Internal Audit Unit of the Ministry of Finance National Authorising Officers' Office** examined – paying special attention to the closings – whether the Office adequately performed the tasks related to the implementation of the Cohesion Fund projects. During the audit it was concluded that the processes of the Paying Authority related to the Cohesion Fund functioned in compliance with the Operational Manual and the applicable legislation. The financial analyses were up-to-date and precise, although the accounting statement was not completed before the audit was closed<sup>28</sup>.

The audit of the **NDA** concerning KIKSZ Plc. concluded that the intermediate body kept the records of UMIS imperfectly and inconsistently, and did not comply with the provisions of the Operational Manual. In the case of several projects, the amendments to the Subsidy Contracts and Contracts for Work were incomplete; it was not possible to trace the data in UMIS.

Within the framework of the audit of the final accounts, the **State Audit Office of Hungary** conducted a regularity audit with regard to the payments of the Cohesion Fund, and in 2009 it also examined – with the method of performance audit – the environmental projects financed from the Cohesion Fund and national resources on two occasions, focusing on the aspects of effectiveness and efficiency.

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<sup>28</sup> Source: Internal Audit Unit of the Ministry of Finance National, Authorising Officer's Office – Annual Audit Report 2009 (15 March 2010)

The report on the audit of **solid waste management**<sup>29</sup> pointed out the several-year delay in the utilisation of funds, the shortfall in achieving the objectives and the additional expenditures burdening the budget. One of the most important findings was that the regulations serving the purpose of the prevention of waste generation were not sufficiently effective. The system supporting the utilisation of waste was not elaborated; marketability problems of the waste collected in a selective manner and the resulting shortfalls in revenue jeopardised the sustainability of selective waste collection systems. The conditions of utilising waste in energy production and the techniques of waste pre-treatment were not provided. Capacity constraints hindered burning the waste in incinerator plants.

The audit aiming at the assessment of **sewage treatment projects**<sup>30</sup> concluded that the sewage treatment projects were implemented in parallel with domestic developments, without harmonising and coordinating the domestic and EU funds, with abundant funds available compared to the applications, with irregularities in public procurement and creating uncontracted capacity surpluses, which affected the planning and implementation of the projects. The enforcement of cost-efficiency aspects was not a priority, the institutions managing funds and the beneficiaries did not evaluate the efficiency of the utilisation of funds. A nationwide standard fee calculation as well as the preparation of reconstruction and depreciation plans were not adjusted to the financial sustainability of water utility facilities. Without them the guarantees of financial sustainability were incomplete and there was no price authority control.

During its audits conducted at the end of 2007 and beginning of 2008, the European Commission raised objections in connection with the conducting of the public procurement procedure of the Central Wastewater Treatment Plant of Budapest in 2005. As a result of the audit, the Commission withdrew EUR 40.5 million (approximately HUF 10.5 billion) of the originally planned funding, which had to be compensated by the Hungarian party. However, the Commission permitted the use of the EUR 40.5 million on new facilities.

In December 2009, within the framework of its on-site audit the European Commission examined the regularity of public procurements in the case of those NDP/ERDF and Cohesion Fund programmes where negotiated procedures took place or additional works exceeding 10% of the original contract amount were accounted for. The report containing the ex ante audit findings concluded that the management and audit system worked in an adequate manner, but irregularities were found in the public procurement in the case of three projects. The Commission imposed a financial correction concerning these projects.

In July and September 2009, the European Court of Auditors examined eight Cohesion Fund projects in Hungary in connection with the 2009 statement of assurance, concerning Commission payments with a total amount of EUR 38.6

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<sup>29</sup> SAO report No. 0920.

<sup>30</sup> SAO report No. 0948.

million. The ECA pointed out a minor deficiency in one project in the closing letter sent in July 2010.

During 2009, the Body Responsible for Issuing the Final Declaration conducted two **audits preceding the issuance of the final declaration**, and audited one project in each sector. **Unqualified final declarations** were issued **in both cases**.

As a consequence of the findings of the sample checks, in the course of the audits preceding the issuance of the final declarations, the Body Responsible for Issuing the Final Declaration pays special attention to the examination of the regularity of the conclusion of and amendment to the contracts as well as to the grounding of the decisions closing the irregularity procedures.

### **3.1.3. INTERREG programmes**

The main objective of the INTERREG III programmes launched in 2005 was to strengthen the economic and social cohesion of cross-border regions by supporting cross-border co-operation.

Hungary participated in 9 INTERREG programmes between 2004 and 2006, receiving ERDF subsidies amounting to a total EUR 68.7 million, complemented with EUR 18.1 million co-financing.

In addition to four INTERREG IIIA type cross-border co-operations (Austria–Hungary INTERREG IIIA Community Initiative Programme (AT-HU), Slovenia–Hungary–Croatia Neighbourhood Programme (SLO-HU-CRO), Hungary–Slovakia–Ukraine Neighbourhood Programme (HU-SK-UA), Hungary–Romania and Hungary–Serbia and Montenegro Cross-border Co-operation Programme (HU-RO-SCG)), Hungary participated in an INTERREG IIIB type transnational programme and four INTERREG IIIC type interregional programmes.

In the case of the HU-SK-UA and HU-RO-SCG programmes the National Development Agency was responsible for the implementation as a Managing Authority, in the case of the AT-HU and SLO-HU-CRO programmes as a National Authority. The tasks of the common technical secretariat and intermediate body were performed by VÁTI Nonprofit Ltd. The National Authorising Officer's Office operating within the Ministry of Finance and VÁTI Nonprofit Ltd. performed the duties of the Paying Authority and the Sub-paying Authority, respectively. The Government Audit Office (following 1 July 2010 the Directorate General for Audit of European Funds) was responsible for conducting the systems audit and 5% sample checks as well as for the preparation of the closing statement and (sub-)final declaration to be issued upon the expiration of the subsidy.

Within the framework of the programmes of INTERREG IIIA, altogether 388 projects in cross-border regions and 65 transnational/interregional projects were implemented on the Hungarian side. As a result of overcommitment, contracts were concluded for 106% of the original allocation.

In 2010, the AT-HU, HU-SK-UA, HU-RO-SCG and the SLO-HU-CRO INTERREG IIIA programs were closed: the Government Audit Office (from 1 July 2010 on

the Directorate General for Audit of European Funds) issued the closing statements and the (sub-)final declarations in line with the relevant legal regulations. The closing statements summarised the main findings of the audits conducted in the 2005–2009 period, and also examined the documents of earlier Community and national audits.

The year 2009 systems audit targeted the preparations for closing the programmes, the monitoring of the implementation of the recommendations made during earlier audits and the management of irregularities. In the case of all the three programmes, concerning deadlines it was a deficiency that the organisations participating in the closing did not prepare any internal rules of procedure or audit trails for the individual processes. The measures proposed during earlier audits were adequately implemented, and irregularity management was also found satisfactory.

The experiences of the operation of the INTERREG Monitoring and Information System demonstrated a positive change. The responsible bodies eliminated the errors and deficiencies detected in the course of the audits, and averted the risk factors that had an unfavourable effect on the reliable IT support of the closing procedure of the INTERREG IIIA programmes. At the same time, the INTERREG Monitoring and Information System did not contain up-to-date data in connection with the available funds of the SLO-HU-CRO and AT-HU programmes. Therefore, the Body Responsible for Issuing the Final Declaration deemed it justified to reconcile the discrepancies remaining before starting the closing, as this meant a high risk with regard to the coherence of the data kept on record at individual Member and Partner States. The recommendations related to operating the INTERREG Monitoring and Information System in the period following the closing and keeping it in live operation were fulfilled by 31 January 2010, and the National Development Agency signed a contract with VÁTI Nonprofit Ltd. for the further operation of the INTERREG Monitoring and Information System.

The Body Responsible for Issuing the Final Declaration concluded that only a few errors occurred, and they were adequately handled by the organisations participating in the process. The Body Responsible for Issuing the Final Declaration obtained reasonable assurance with regard to the legality and regularity of the transactions closed within the framework of the programme. The shortcomings were deemed to carry low risk in terms of the regular and transparent operation of the system as well as from the aspect of controllability. No irregularity resulting in repayment was detected during the audits.

In 2009, sample checks were conducted only in the case of the HU-RO-SCG programme. The shortcomings found in connection with the three selected projects were one-off and were adequately handled by the institutional system. The Government Audit Office found that the frequency of irregularities was low; the errors affected by financial correction were classified as one-off errors, and the financial settlement took place.

Based on the examination and evaluation of **the systems audits preceding the closing**, on the whole, the Body Responsible for Issuing the Final

Declaration proposed the issuance of an **unqualified (sub-)final declaration for all the three programmes.**

The audit of the Internal Audit Unit of the Ministry of Finance National Authorising Officers's Office conducted during 2009 concluded that the Office performed the tasks related to the implementation of the INTERREG programmes in an adequate manner, but the final closing of the Unified Monitoring and Information System did not take place, and the final general ledger statement for the given year as well as the annual accounting statements were not prepared until the date of closing the audit<sup>31</sup>. The financial audit report on the INTERREG processes closed on 12 May 2010 already reported on the completion of the 2005, 2006, 2007 and 2008 accounting statements.

#### **3.1.4. Schengen Facility**

In the period between 2004 and 2006 the Schengen Facility provided financial assistance to the Member States concerned to ensure the enforcement of the Schengen Aquis and the required conditions of the external border control.

The Accession Treaty allocated some EUR 165.8 million to Hungary for a period of three years. By the contracting deadline of 31 December 2006, nearly 300 contracts were concluded to under the Schengen Facility, and the commitment of funds reached 99.8%. The investments were implemented on schedule, by 30 September 2007, and the payments were effected by the 31 December 2007 deadline.

The Competent Authority finalised the Final Report on the professional and financial fulfilment of the programme, approved by the Schengen Facility Inter-departmental Committee, and the Government Audit Office issued the relevant cost declaration on the basis of the audits. The Competent Authority forwarded the Final Report to the European Commission.

The European Commission performed the financial and the on-site audits of the Schengen Facility related to the closing audit between 8–19 September 2008 and in February 2009, respectively, conducting audits at the national institutions concerned. Within the framework of the audit, the Commission determined the amount it deemed acceptable to be accounted for in advance to the debit of the Schengen Facility; negotiations on the amount were under way at the cut-off date of this Summary.

Pursuant to the Draft Report on the audits sent in 2009, the preliminary position of the European Commission identified non-eligible costs, which was challenged by the Hungarian party. In April 2010 the European Commission sent the final Closing Report (that pointed out 'unauthorised spending' of funds and reclaimed funds). Hungary requested the European Commission to allow an opportunity to consult on this issue.

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<sup>31</sup> Source: Internal Audit Unit of the Ministry of Finance National Authorising Officer's Office – Annual Audit Report 2009 (15 March 2010)

### **3.1.5. Transition Facility**

In the period between the date of the accession and the end of 2006 the European Union provided temporary financial assistance to the new Member States for the development and strengthening of their administrative capacities in the area of the implementation and enforcement of Community Law and to facilitate the mutual exchange of best practices.

The total value of the assistance awarded by the European Union to Hungary within the framework of the three-year Transition Facility programme amounted to EUR 37.07 million, to which the national co-financing contributed with nearly EUR 11.19 million (excluding VAT).

In terms of its objectives, rules of procedure and institutional system, the Transition Facility can be considered a continuation of the institutional development chapter of the PHARE programme. The National Aid Coordinator (the Minister supervising the National Development Agency) was responsible for the programming, planning, supervision and evaluation of the programme. As implementation agency, the Central Finance and Contracts Unit was responsible for the administration of public procurement, concluding the contracts and arrangement of payments, while the so-called senior programme officers were liable for the technical execution, administrative and financial implementation of the projects. With regard to the implementation of the Transition Facility funds, the National Authorising Officer had comprehensive powers and responsibility.

In the case of the projects funded from the year 2004 allocation, 96.5% of the contracted EU funds and 98.7% of the committed national co-financing was paid before the payment deadline, which meant 97% at programme level. 96.9% of the contracted amount was paid before the payment deadline from the year 2005 allocation; 91.1% of the amount of the co-financing was contracted, and 98.91% of this contracted amount was paid.

With regard to the 2006 programme, 96.9% and 95.5% of the contracted EU funds and of the national co-financing, respectively, were paid before 15 June 2010. The professional and financial implementation of the projects was closed in 2010.

97.3% (EUR 0.6 million) of the EU funds committed for the 2004/016-954, so-called horizontal programme and 97.3% (EUR 0.2 million) of the contracted national co-financing were paid.

The Government Audit Office did not conduct any systems audit in 2009; the sample check of one project was started but not finalised by the time of issuing the annual audit report (June 2010). The measures proposed earlier during the audit of the two projects in the report on 2008 were implemented, and the planned measures in connection with the systems audit conducted by the National Development Agency with the involvement of an external advisory company were basically realised.

With regard to the PHARE, as a consequence of the closing of the programme, the audit assignments in 2009 focused on examining the regularity of the

projects. The Government Audit Office started one sample check in the year under review, which was not finalised by the time of issuing the annual audit report (June 2010). The realisation of the action plan concerning the programme audited in 2008 was progressing in an adequate manner.

According to the position of the Ministry of Finance National Authorising Officer's Office, the closing of the PHARE programmes was an extremely protracted process, mainly as a result of the attitude of the Commission and the fluctuations among the actors of the national institutional system. In 2009, the Commission managed to close 49 PHARE programmes, most of which (40) were implemented in the 1990s. In 2009, suspicions of irregularity were investigated on two occasions: irregularity was proven in both cases, and the beneficiary paid back the whole project amount.

### **3.1.6. The EEA and Norwegian Financing Mechanisms**

The European Economic Area and the Norwegian Financing Mechanism support schemes were set up by Norway, Iceland and Liechtenstein in 2004 to foster the creation of social and economic cohesion in the enlarged European Economic Area. The two funds can be considered uniform in terms of their rules of procedure; a standard system of rules applied to them. Including the management costs, a total amount of EUR 135 million was available for Hungary in the period between 2004 and 2009.

The Managing Authority of International Cooperation Programmes of the National Development Agency was responsible for the implementation of the Financing Mechanisms in Hungary as National Focal Point. The international coordination of the programme was performed by the Financial Mechanism Office seated in Brussels. The tasks of the intermediate body were performed by the CFCU, then by the Managing Authority of the National Cooperation Programmes when the CFCU was terminated, and later by VÁTI Nonprofit Ltd., while the Paying Authority operated within the Ministry of Finance National Authorising Officer's Office. The professionally competent ministries were responsible for the verification of the professional performance. The audit of the projects supported within the framework of the financing mechanisms was conducted by the Government Audit Office, which prepared a report on the experiences of the audit.

In Hungary, the National Focal Point announced three rounds of grant applications in the EEA and Norwegian Financing Mechanism 2004–2009 programme: the primary emphasis was on basically non-profit activities and project objectives serving public purposes. Normally, the allowed contribution of the Financing Mechanism to the projects was 60% of the total eligible cost of the project. However, if certain conditions were met, the share of the support could reach 85% or even 90%.

A total of 2,342 applications were submitted for the programme. 99 of the 135 applications recommended for support were judged favourably; 99.21% of the available allocation was committed to applications. The implementation of the projects was launched at all beneficiaries; in the case of some projects the professional or professional and financial closing have already been

completed. The donors determined 30 April 2011 as the final deadline for project completion .

The importance of the monitoring activity is increasing with the start of the project implementation stage. According to the experiences of the on-site monitoring visits paid to date, the critical phase was constituted by the preparation and conducting of the public procurements. In addition, prefinancing of the projects was a difficult task for project owners that were not well-capitalised. The applicability of direct payment to suppliers, which would have eased the solution of the problem of prefinancing in these cases, worked with difficulty or did not work at all.

It is a positive experience that grant application funds worked very successfully, especially at a regional level, and allowed the implementation of low-budget, small-size projects, which were at the same time useful and spectacular for smaller communities.

Until the date of preparing the 2009 summary audit report (April 2010), the **Government Audit Office** conducted the sample check of one project. The audit found deficiencies with regard to the conflict of interest and confidentiality statements, the audit trail, financial management control as well as the performance of book-keeping and accounting tasks<sup>32</sup>. Based on the audit, the fact of irregularity was established on two occasions.

The systems audit conducted by the Internal Audit Unit of the **Ministry of Finance National Authorising Officer's Office** in 2008 and 2009 concerning the developments in the EEA and Norwegian Financial Mechanisms found the relevant regulations and processes adequate, and only raised an objection to the subsequent nature of performing the accounting recording tasks. In 2009, the Internal Audit Unit also audited the performance of the tasks related to the implementation of the Financing Mechanisms. The audit established that the National Authorising Officer's Office performed the tasks in compliance with the relevant regulations. The National Authorising Officer's Office was unable to fulfil its obligation related to the annual closing of the accounting, because the Intermediate Body had a serious backlog in keeping the accounting records. Deadlines were not met completely in the area of the tasks related to keeping the accounting records. The report called attention to the importance of concluding an agreement on the accounting records between the Paying Authority and the Intermediate Body as soon as possible<sup>33</sup>.

In 2009, the **Internal Audit Department of the National Development Agency** conducted the audit of the EEA/Norwegian Financing Mechanism. The findings were related to the unsettled nature of the legal relationship between

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<sup>32</sup> During the 2009 audit conducted by the Government Audit Office the setting up of the financial administration and audit systems was in progress. Following the audit, financial management control was ensured. The book-keeping and accounting module of the UMIS EEA subsystem was delivered.

<sup>33</sup> Source: Internal Audit Unit of the Ministry of Finance National Authorising Officer's Office – Annual Audit Report 2009 (15 March 2010)

the NDA and VÁTI as well as to the fact that the payment of subsidies was below the plan, and it the use of the Technical Assistance from several standpoints. Further deficiencies found by the investigation were that several Implementation Contracts had not been concluded, and the financing module of the UMIS EEA/Norwegian Financing Mechanism did not work.

The European Commission deemed the negotiations about the next period (2009–2014) of the Programme held with the donor states since September 2008 closed on 18 September 2009, but due to amendments proposed by Bulgaria and Malta, the agreements were not signed in 2009. Based on the agreement to be signed, Hungary may receive EUR 83.2 million from the Norwegian Fund and EUR 70.1 million from the EEA Fund.

## **3.2. Funds available in the 2007–2013 programming period**

### **3.2.1. New Hungary Development Plan**

On 1 January 2007 the second programming period started for Hungary. Until 2013 it may result in the allocation of development resources amounting to nearly HUF 7,000 billion<sup>34</sup> (including national co-financing) within the framework of the New Hungary Development Plan (NHDP) and its 15 operational programmes.

Pursuant to the provisions of the general EU regulation, according to the eligibility requirements for the subsidies, six of the seven Hungarian regions – Central Transdanubia, Western Transdanubia, Southern Transdanubia, Northern Hungary, Northern Great Plain and Southern Great Plain – fall under the ‘convergence’ objective, while the Central Hungary region belongs to the ‘regional competitiveness and employment’ objective. In addition, Hungary also received subsidies from the Cohesion Fund<sup>35</sup>.

The ‘convergence’ objective applies to the NUTS II-level region, where the per capita GDP for the 2000–2002 period calculated on the basis of Community data – at purchasing power parity – is below 75% of the Community average. The Central Hungary region does not fall under the ‘convergence’ objective, because in 2000–2002 its per capita GDP exceeded 75% of the average of the EU 25. However, in 2006 the region still fell under the 1st objective set out in Council Regulation (EC) No 1260/1999, and between 2000 and 2002 its per capita GDP exceeded 75% of the average of the EU 15. Consequently, based on the ‘regional competitiveness and employment’ objective it is entitled to receive (so-called phasing-in) funding provided on a temporary and individual basis.

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<sup>34</sup> Available funds that may be drawn from the Union in the seven years amount to EUR 22.4 billion.

<sup>35</sup> Between 2001 and 2003, at purchasing power parity, the per capita gross national income (GNI) in Hungary amounted to EUR 11,666, which was 54.9% of the average of the EU 25 (EUR 21,254). Hungary prepared the convergence programme set forth in Article 104 of the EC Treaty; based on these two conditions, Hungary is entitled to use the resources of the Cohesion Fund.

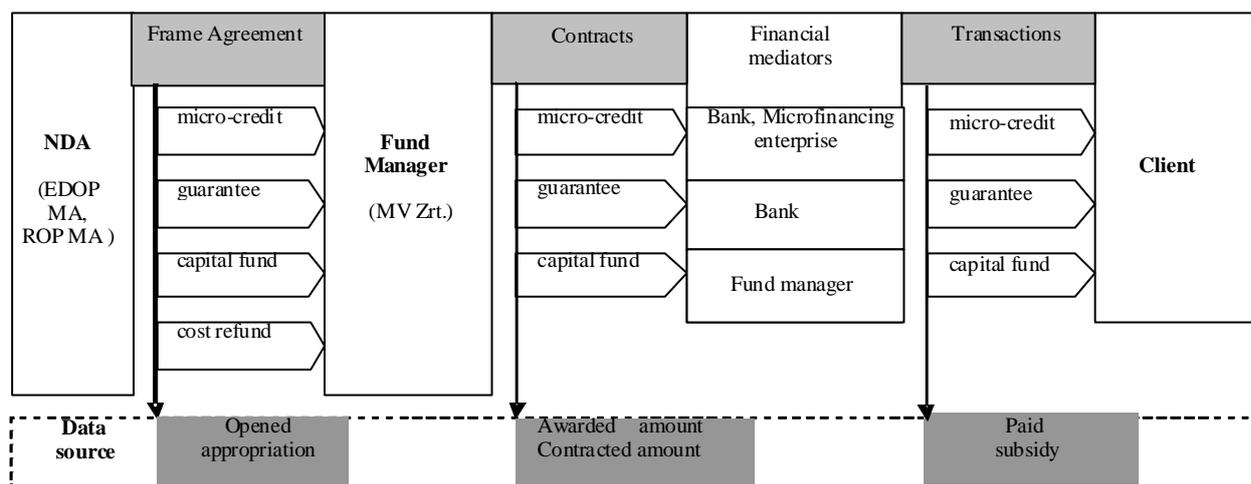
In order to utilise the increased funds efficiently and effectively, the **institutional system and the control environment** were established in the first two years of the new programming period (on the basis of the institutional system managing the programmes of the previous period), the accreditation procedures were typically closed in 2008, and the Transport Operational Programme and priority 2 of the Central Hungary Operational Programme were approved in 2009.

Compared to the NDP, **the way of implementing the NHDP** changed fundamentally. In parallel with the implementation through tendering, utilisation as so-called priority projects, without a tendering procedure, came to the fore. The Member State individually decides on development and investment ideas of strategic importance (without tendering procedures, the Government considers the importance of the given development and its compliance with the objectives of the NHDP). In the case of large projects (developments where the amount of funding exceeds EUR 50 million, or EUR 25 million in the case of environmental investments), based on the Government's first-round proposal, the European Commission makes the final decision on the basis of the Request for Assistance compiled by the Member State. Since 2009, the value limit of large projects has been uniformly EUR 50 million.

Within the framework of the NHDP it was possible to use financial instruments for so-called JEREMIE (micro credit, SME loan, risk capital funds, and portfolio guarantee) programmes (Figure 9). Within the JEREMIE programme mainly repayable funding could be applied for.

**Figure 9**

**System of financial instruments**



Source: NDA Report on the utilisation of development assistance from the European Union

**Based on the evaluation prepared by the NDA, regarding the financial progress of the NHDP** it can be established that during the first three years of the programming period decisions were made for 44% and contracts were concluded for 38% of the total allocation. However, payments were effected only for 9% of the allocation (Table 4).

Priority projects accounted for nearly half (48%) of the amount of the funding awarded. In the case of the tendering schemes decisions were made for 18% and contracts were concluded for 14% of the total NHDP allocation. Payments were low for both forms of assistance, amounting to a mere 22% and 18%, respectively, of the funding awarded.

In 2009, a slow start of the financial instruments intended for small and medium-sized enterprises was experienced, falling short of expectations.

**Table 4****Progress of the NHDP in a breakdown by procedure types, 2007–2009**

	NHDP allocation		Awarded funding		Contracted funding		Paid funding	
	EUR million	HUF billion	HUF billion	%	HUF billion	%	HUF billion	%
Priority projects			1,649.5	21%	1,524.0	19%	370.7	5%
Proposal schemes			1,397.0	18%	1,073.2	14%	254.6	3%
Financial instruments			199.3	3%	173.9	3%	52.8*	1%
Technical Assistance			181.9	2%	178.3	2%	57.9	1%
<b>NHDP</b>	<b>29,319</b>	<b>7,875.1</b>	<b>3,427.7</b>	<b>44%</b>	<b>2,949.4</b>	<b>37%</b>	<b>736.0</b>	<b>9%</b>

Source: NDA report on the utilisation of development assistance from the European Union

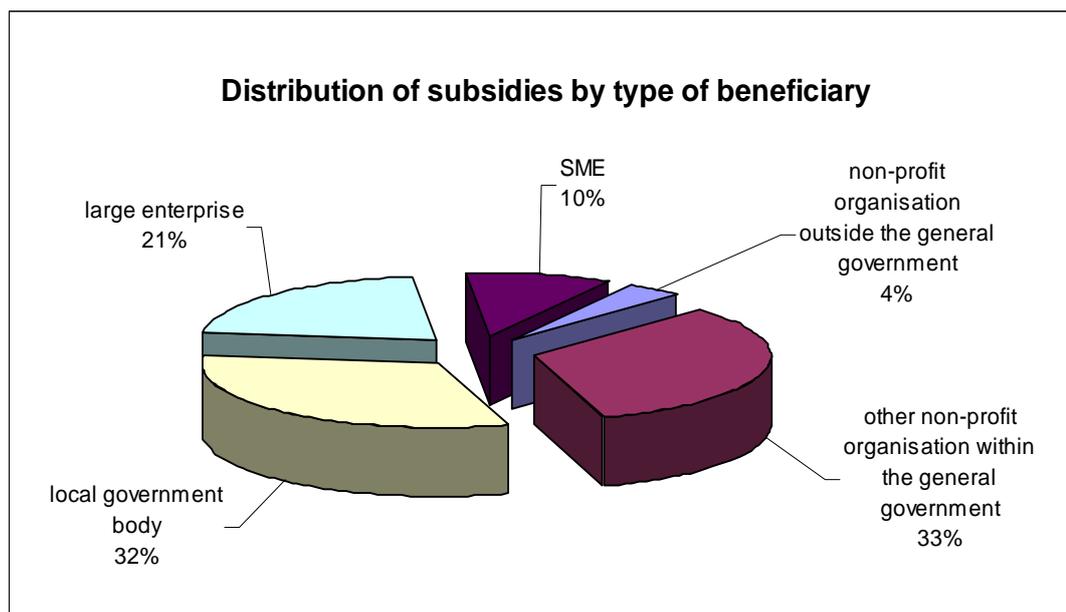
\* includes the amounts paid to the resource management organisation

Exchange rate: EUR/HUF 268.6

In 2009, there was a great leap forward in the field of large projects. Until the end of 2009, the Government approved 27 large Transport Operational Programme and Environment and Energy Operational Programme projects, 16 of which were supported by the European Commission. This figure places Hungary at the forefront of the European Union. A total amount of HUF 237.2 billion was paid for the 27 large projects that had been approved.

The examination of the awarded funding reveals that a mere 10% of the funds contributed to the development of SMEs, mainly through the Economic Development Operational Programme and, to a lesser extent, through the Central Hungary Operational Programme (Figure 10).

Figure 10



Source: National Development Agency

Evaluating the **progress of the programmes of the NHDP** it can be established that although **the processes accelerated** considerably in 2009, **the progress can still be considered slow**.

**In order to accelerate the programmes of the NHDP** and attenuate the effects of the global crisis, **several steps were taken in 2009**: easing the conditions related to the use of **EU** funds and mitigating the administrative burden on applicants.

The rules of advance payment became more favourable, the obligations related to financial collaterals were eased, interest for default was introduced to the debit of the implementing institutional system, and in the case of economic development subsidies it became possible to convert the sales revenue expectation to labour retentional. The application of the normative tendering procedure became more wide-spread.

In conformity with the preliminary study prepared for the reallocation of funds among operational programmes, the final accounts audit report of the SAO as well as its reports dealing with irregularity, debt and claims management **called attention to the fact** that easing the conditions of entry, the mandatory conditions of undertaking regarding the future and the conditions of providing collateral, increasing the intensity of support as well as raising the magnitude of the automatic advance **together may add to the improper use of the funds granted through applications and to the risk of the fulfilment of claims**. The institutional system has already noticed the signs indicating unfavourable developments (failure to account for the subsidy, use of the allocated funds for ineligible purposes, and lack of motivation to complete the project as soon as possible).

The significant amount of advance payment did not motivate certain beneficiaries to implement the undertaken commitments completely and as soon as possible. This was also a reason why the number and amount of claims due to advances that were not accounted for increased rapidly. The conditions of providing collateral applied in the NHDP – as a result of the less strict conditions than before – did not guarantee the realisation of the original objective.

In parallel with the increase in liquidations, the significance of collaterals, prompt collection and distraint also increased.

The effects of the economic crisis and the steps taken by the Government in 2006 (convergence programme and the measures taken to restore the budgetary equilibrium) as well as the drying out of sources of lending had the most serious effect on the most vulnerable actors of the Hungarian economy, **the small and medium-sized enterprises**, and – through them – employment.

In order to mitigate some negative effects of the crisis, expand the resources available for enterprises and accelerate the use of funds, the Government – with the approval of the European Commission – carried out reallocations among the operational programmes of the NHDP, and simplified the system of applying for grants. The largest beneficiary of the reallocation was Economic Development Operational Programme (HUF 51 billion from the Social Infrastructure Operational Programme and HUF 60 billion from Transport Operational Programme). Within that the 2nd priority (which supports the complex development of enterprises, and SMEs in particular) received HUF 105 billion, while the 4th priority (financial instruments) received HUF 6 billion.

The highest risk related to the funds reallocated in favour of the financial instruments evolved in connection with absorption ability. The final accounts audit report of the SAO concluded that improving the financing of SMEs within the framework of the JEREMIE programme did not succeed at the planned rate.

Until the end of 2009 Hungary received a total of EUR 3.78 billion from the European Commission. The automatically paid advance (EUR 2.37 billion) continued to constitute most of this amount. The interim transfer paid on the basis of the requests submitted to the Commission reached EUR 1.4 billion.

The value of the cost declaration sent by the Certifying Authority to the European Commission in 2009 amounted to EUR 856.67 million, significantly exceeding the previous year's EUR 141.31 million.

**The majority of the deficiencies found by the audits, the financial corrections as well as the unfavourable rating of the management and control systems were due to the shortcomings experienced during the public procurement procedures**, despite the fact that in the case of certain operational programmes the institutional system paid special attention to auditing the public procurements (checklists and employing public procurement experts).

Conducting the public procurement procedure is the task and responsibility of the beneficiary. The joint task and responsibility of the Intermediate Body, the

Unit for Procurement Control and Coordination and the NDA is to facilitate and check the regular conducting of the public procurement procedure, and – in the case of an infringement of the law – to apply the consequences set out by law and in the subsidy contracts concluded with the beneficiaries.

According to the findings of the SAO final accounts audit, the failure to formulate comprehensive rules of procedure for auditing public procurements covering the whole institutional system poses an important control risk.

The revision and compliance with the comprehensive rules of procedure for auditing public procurements covering the whole institutional system and initiating, if necessary, the amendment of the relevant domestic legal regulations were drawn up as a recommendation by the SAO for the President of the NDA, with a view to avoid a recurrence of the problems related to the detection of the public procurement irregularities of the 2004–2006 period in the case of the programmes of the 2007–2013 period. In addition, in the opinion of the SAO, in the case of the Cohesion Fund, due to the lack of rules of procedure regarding the irregularities found during the closing of the projects and monitoring, the settlement of the claims originating from such irregularities within the deadline closing the project maintenance period, the collectability of receivables stemming from the financial corrections and the fulfilment of the payments by the European Commission due to the domestic budget upon the closing of the project are not ensured. Therefore, the SAO formulated a recommendation for the President of the NDA regarding the above as well.

The investigations of the Audit Authority revealed further minor deficiencies concerning documentation, the uploading of the Unified Monitoring and Information System, the effectiveness of the audit trail and keeping records of the irregularities.

In parallel with the increase in payments, the number of audits conducted by the competent directorates-general of the European Commission and the European Court of Auditors also increased. The audits detected major errors in the areas of non-compliance with the rules of public procurement and the weak functioning of the management and control systems.

The Directorate General for Regional Policy of the European Commission completed the audit of 20 Economic Development Operational Programme projects in 2009. There were two remarks of lesser importance in the audit report, but they did not concern the regularity of payments. Therefore, no irregularity or repayment obligation was established.

For the compilation of the statement of assurance to be issued for the EU final accounts of the year 2009, the European Court of Auditors audited the legality of the payments of 8 Economic Development Operational Programme projects.

In two cases, the data supply by the Ministry of Finance National Authorising Officer's Office was found to be inaccurate, although it did not affect the implementation of the projects. In the case of one project the audit did not have access to the assets bought from the funding. Change in ownership took place without the knowledge of the Intermediate Body, and forging of documents was also revealed. The Managing Authority initiated an irregularity procedure, and in accordance with the European Court of Auditors it established the

irregularities, demanding the repayment of the subsidy. No irregularities were revealed in the other projects.

For the compilation of the statement of assurance to be issued for the EU final accounts of the year 2009, the European Court of Auditors conducted an audit concerning the Environment and Energy Operational Programme.

During the audit of the selected Environment and Energy Operational Programme projects it was established that – as a result of the defective operation of the UMIS – the wrong amount was indicated in the payment request (the right amount was paid to the beneficiary). In one instance a violation of the public procurement rules was experienced, which resulted in a repayment obligation.

During the above two ECA audits the functioning of the management and control systems of the operational programmes was evaluated, which was also reinforced with the audit of the selected Economic Development and Environment and Energy Operational Programme projects. Based on the audit of the operational programmes, the functioning of the management and audit systems received an unfavourable assessment. The management and control system operated by the Managing Authority, the Intermediate Body and the Certifying Authority received a 2nd level rating (the system works but needs development). The work of the Audit Authority was deemed adequate.

Concerning the State Reform Operational Programme the audit unit of the ESF of the European Commission issued a qualified opinion. According to the audit, the management and control system functioned, but required significant improvements (level 3 rating). As the audit questioned the reliability of the management and control system of the operational programme at the level of both the Managing Authority and the Auditing Authority, this entailed the interruption of the payment deadline of the State Reform OP request until the Hungarian authorities prove the reliability of the first- and second-level audit systems.

Within the framework of its on-site audit conducted between 7 and 11 December 2009, the Directorate General for Regional Policy of the European Commission examined public procurements exceeding the Community value limits in the case of the NDP/ERDF and Cohesion Fund programmes where negotiated procedures took place or additional works exceeding 10% of the original contract amount were accounted for. The objective of the audit was to obtain reasonable assurance of compliance with national and EU public procurement legislations regarding the Structural Funds and Cohesion Fund contracts. Among others, certain contracts of the No. 2004/HU/16/C/PE/002 and No. 2003/HU/16/P/PE/020 projects financed from the CF environmental allocation were selected for audit. The findings of the audit were not available at the cut-off date of this Summary.

The Directorate General for Regional Policy of the European Commission conducted an audit in the 27 EU Member States regarding the 2007–2013 period concerning the determination of error ratios (10 projects in each country were examined). The Commission audited the Economic Development Operational Programme and the Implementation Operational Programme (IOP) in Hungary. It found insignificant, formal errors in the case of an IOP

and an Economic Development OP project, but in another IOP project it established the violation of the EU directive regarding public procurement procedures. The combined Member State error ratio was determined as zero for the Economic Development OP and 1.45% for the IOP.

### **Local governments as beneficiaries of EU subsidies**

Within the framework of the comprehensive audit of the budgetary financial management system of local governments, using the performance audit method, the State Audit Office examined – in terms of the level of internal regulation and organisation – the preparedness of the given local governments from the aspect of monitoring, applying for and using of funds from the European Union, and also evaluated whether the funds requested from the European Union were related to the development objectives determined by the local government<sup>36</sup>.

Between 2007 and 2009, **22%** of the audited local governments **prepared effectively** for utilisation of the funding expected from the European Union. Most of the applications for the utilisation of EU funding were related to the objectives specified in the economic programmes, sectoral and settlement development concepts and programmes. However, in terms of **level of regulation** 74% of the audited local governments and in terms of **organisation** 4% of them did not prepare themselves effectively for the use and utilisation of funds from the European Union.

At half of the audited local governments the regulations did not include the information supply obligation related to the monitoring of applications, and at one tenth of them the regulations did not require financial management control tasks. The personnel conditions of monitoring and preparing applications and of carrying out the development task were ensured by most of the audited local governments. However, the rules of responsibility for the professional and formal requirements of the application were not specified in nearly one third of the contracts concluded with external organisations, in approximately half of them the audit obligation of the party carrying out the development task was not set out, and at 77% of the audited local governments the risk analysis that serves as a basis for the internal audit strategy did not cover the development tasks supported by funds from the European Union.

In spite of the relevant legal provision, nearly one tenth of the local governments audited between 2007 and 2009 did not adopt its economic programme for the 2006–2009 period. Approximately half of the applications submitted by the audited governments received funding; some of them withdrew their applications due to lack of own funds or final building and official permits, the failure of the public procurement procedure or an increase in the costs of implementation.

The refusal of the applications submitted was mainly due to the lack of funds, insufficient professional elaboration, lack of cost-effectiveness, content and

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<sup>36</sup> SAO Report No. 1019.

formal errors of the applications, failure to meet the conditions of the application for grant in full and other deficiencies resulted in.

In the budget decrees of the years 2006–2009, approximately half of the audited local governments planned the revenue and expenditure appropriations of development tasks supported by funding from the European Union. The budget decree of nearly half of the local governments did not include separately the total revenues and expenditures of the programmes implemented with support from the European Union, and at around two thirds of them the development tasks with an impact for several years and implemented from EU funding were not presented in a quantified manner, in an annual breakdown, with a textual justification in order to inform the body of representatives of the local government.

Local governments spent 99.9% of the amount planned for the implementation of the already completed development tasks. Occasional delays in the payment of subsidies following the submission of payment requests were mainly attributable to the deficiencies in form and content of the documents and invoices certifying the request. The intermediate bodies fulfilled the requests for advance payment and the properly submitted payment requests within the deadline in the case of approximately one third of the audited projects.

Local governments supplied their own funds for the implementation of the projects, meeting the requirement of providing an advance for the subsidy. Due to incomplete planning of the expenditures and paying costs that were ineligible according to the subsidy contract, approximately one fourth of the local governments implemented the development tasks with additional expenditures compared to the plan. At about 60% of local government offices, the financial management control was carried out during the fulfilment of the expenditures and revenues of the tasks performed using funds from the European Union. However, the internal audit did not examine the spending of the funds from the European Union at the vast majority (90%) of the local governments that received funding. External audit organisations examined the realisation of development tasks supported with funds from the European Union at approximately two thirds of the audited local governments; the mayors took measures as a result of their findings.

### **3.2.2. International cooperation programmes**

The implementation phase of the 2004–2006 INTERREG community initiative programmes ended. In the 2007–2013 programme period these programmes were replaced by the 3rd objective of the regional policy, the **European Territorial Cooperation. 7 cross-border** (6 bilateral and 1 quadrilateral), **2 transnational** (Central and Southeast European) and **4 interregional** (INTERREG IVC, URBACT, ESPON, and INTERACT) programmes were elaborated with Hungarian participation. The EU funding of the programmes is provided by the **European Regional Development Fund** and, at the external borders of the Union, by the **IPA** (Instrument for Pre-accession Assistance, with regard to Croatia and Serbia) and **ENPI** (European Neighbourhood and Partnership Instrument, with regard to the Ukraine) funds.

### **Cross-border cooperation programmes**

In the cross-border co-operation programmes – contrary to the typically trilateral neighbourhood programmes of the 2004–2006 period – bordering regions of two countries cooperated in order to develop cross-border economic and social relations.

The objective of the European Territorial Cooperation is to strengthen cross-border cooperation through joint local and regional initiatives, transnational cooperation through measures leading to integrated regional development and related to Community priorities as well as interregional cooperation and exchange of experience at an appropriate territorial level. The overwhelming majority of funds was allocated to **cross-border programmes**, where the main areas of intervention were the following: local economic development relations; urban and rural development; tourism; human resource development; R+D; culture; public health; education; environmental protection; renewable energy; transport, IT and water conservancy cooperation; legal and administrative cooperation etc. (investment or so-called 'soft' activities, e.g. in the form of studies).

The national institutional system of the Operational Programmes of the European Territorial Cooperation was based on the institutional system of the INTERREG programmes, although due to the EU regulations the procedures were different from the previous INTERREG regulation. The Memoranda of Understanding were signed in 2009. As a result of the differences in scheduling of the programmes, new calls for proposals appeared in some of the programmes; following the evaluation of the submitted projects the Joint Monitoring/Joint Steering Committees made decisions on funding and concluded the subsidy contracts, while in other programmes the implementation of projects that had received subsidies earlier started.

The instrument of the project-level financial and professional monitoring is the INTERREG Monitoring and Information System 2007–2013 operated by the NDA. The system will be updated with live data during 2010.

In the case of the four cross-border programmes<sup>37</sup> the tendering and contracting procedures took place in 2009; no payments were effected.

In 2009, the internal audit of the Ministry of Finance National Authorising Officer's Office examined whether the the Office had performed the tasks related to the implementation of the programmes of the European Territorial Cooperation properly. The report prepared on the basis of the audit concluded that the processes of the Certifying Authority related to the European Territorial Cooperation Programme functioned in compliance with the Operational Manual and the provisions of the relevant EU and national legal regulations<sup>38</sup>.

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<sup>37</sup> Austria–Hungary (AT-HU), Slovenia–Hungary (SI-HU), Hungary–Slovakia (HU-SK), and Hungary–Romania (HU-RO).

<sup>38</sup> Source: Internal Audit Unit of the Ministry of Finance National Authorising Officer's Office – Annual Audit Report 2009 (15 March 2010)

Within the framework of the **Instrument for Pre-accession Assistance** (IPA), Hungary participated in two cooperation programmes: Hungary–Croatia and Hungary–Serbia.

The Instrument for Pre-accession Assistance (IPA), which has existed since 2007, focused on candidate and ‘potential candidate’ countries (Croatia, Turkey, Former Yugoslav Republic of Macedonia as well as Albania, Bosnia-Herzegovina, Serbia and Montenegro).

In the case of the IPA programmes, the Managing Authority, the organisational unit of the NDA responsible for the international cooperation programmes set up the Joint Technical Secretariat within the framework of VÁTI Nonprofit Ltd. The Joint Certifying Authority is the Ministry of Finance National Authorising Officers' Office, regarding the domestic partners the first-level audit assignments (certifying activity) were performed by VÁTI Nonprofit Ltd. The role of the Joint Audit Authority was played by the Government Audit Office (the Directorate General for Audit of European Funds from 1 July 2010).

In the case of the Hungary–Croatia IPA Cross-Border Cooperation Programme, following the tendering procedure that took place in 2009, contracts for 41 projects were concluded between March and August 2010.

In the case of the Hungary–Serbia Cross-Border Cooperation Programme, the Memorandum of Agreement was signed in 2010. The Joint Monitoring and Steering Committee decided on the first call for proposals on 28 April 2010.

In contrast with the European Territorial Cooperation implemented along the internal borders of the EU, the cross-border component of the **European Neighbourhood and Partnership Instrument** supports the cooperation with given territorial units that are located along the external borders of the Community and belong to partner countries that remain, for the time being, outside the EU for a prolonged period of time.

In the case of the **Hungary–Slovakia–Romania–Ukraine European Neighbourhood and Partnership Instrument Cross-Border Cooperation Programme 2007–2013** decisions on applications for grants were made in April 2010. In the case of the third priority, taking account of the closed circle of applicants (customs and border guard authorities), the funds were allocated within the framework of a so-called direct procedure.

The programme was implemented in a uniform structure, irrespective of the territorial distribution determined by state borders, applying joint projects, joint decision-making and common available funds. The joint organs were responsible for the comprehensive coordination of the programme. The Managing Authority and the Joint Technical Secretariat operated in Hungary (NDA Managing Authority of the National Cooperation Programmes and VÁTI Nonprofit Ltd., respectively).

In 2009, the Internal Audit Department of the NDA audited the subject of the setting up and operation of the national institutional system of the European Neighbourhood and Partnership Instrument. The findings of the audit highlighted the lack of the Technical Assistance manual and programme-level manual.

### **Transnational cooperation programmes**

Within the framework of **transnational** cooperation programmes, territories that can be interpreted as one territorial unit from a given standpoint but consist of several countries are looking for solutions together for the problems that concern the region. Hungary participated in both the Central European and South East European programme area with its whole territory.

In the case of the **South East Europe Transnational Cooperation Programme 2007–2013**<sup>39</sup> the tendering and contracting procedures took place in 2009. The Memorandum of Understanding was signed in 2010.

The tasks of the Managing Authority, the Joint Technical Secretariat as well as the Audit Authority and Certifying Authority of the operational programme were performed by Hungary. (The Managing Authority worked within the organisational unit of the NDA responsible for the international cooperation programmes, the Joint Technical Secretariat operated within VÁTI Nonprofit Ltd., the Joint Certifying Authority worked within the Ministry of Finance National Authorising Officer's Office, while the Government Audit Office was the Joint Audit Authority.)

In the case of the **Central Europe Transnational Cooperation Programme 2007–2013**<sup>40</sup> the tendering procedure took place in 2009–2010, in three rounds.

The tasks of the Managing Authority of the operational programme were performed by Austria; the Joint Technical Secretariat as well as the Audit Authority are located in Austria. The role of the National Authority was played by the NDA Managing Authority of the International Cooperation Programmes.

### **Interregional cooperation programme**

The objective of the **INTERREG IVC** Interregional Cooperation Programme is to increase the efficiency of regional development policies and to contribute, through interregional cooperation, to the economic modernisation and the increasing competitiveness of Europe in the fields of innovation, knowledge-based economy, environmental protection and risk prevention. The eligible programme area is constituted by the EU 27 Member States as well as Norway and Switzerland. The tendering and contracting procedures took place in 2009.

Hungary performed member state tasks in the programme, and was only responsible for providing the national co-financing. The Community fund was provided by the Managing Authority operating in France.

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<sup>39</sup> The countries participating in the programme: Austria, Bulgaria, Greece, Hungary, Slovakia, Slovenia, Romania, Italy; Albania, Bosnia-Herzegovina, Croatia, Macedonia, Serbia, Montenegro as well as Moldavia and Ukraine.

<sup>40</sup> The countries participating in the programme: Austria, Czech Republic, Hungary, Poland, Slovakia, Slovenia, Germany, Italy and Ukraine.

### **3.2.3. Swiss-Hungarian Cooperation Programme**

On 27 February 2006, the European Union and Switzerland signed a bilateral agreement, pursuant to which Switzerland provided a contribution of CHF 1 billion during five years to the ten Member States that joined the EU in 2004. Hungary's relevant share is CHF 130.7 million. The agreement concluded by the European Commission and Switzerland determined the framework conditions of providing the funding and the list of fields eligible for the funding. The five-year commitment period started in June 2007, following the approval of the available funds of the Swiss Contribution by the Swiss Federal Council.

The tasks of the National Coordination Unit responsible for the coordination of the Swiss-Hungarian Cooperation Programme were performed by the NDA Managing Authority of International Cooperation Programmes. VÁTI Nonprofit Ltd. and the Ministry of Finance National Authorising Officer's Office were designated to perform the tasks of the Intermediate Body and Paying Authority, respectively. The Government Audit Office (from 1 July 2010 the Directorate General for Audit of European Funds) was the organisation responsible for the systems audits and for the 15% sample checks of the total eligible expenditures.

The Programme provides funding primarily for non-profit activities and project objectives serving public interests. At least 40% of the funding has to be used in the most disadvantaged regions of Northern Hungary and the Northern Great Plain, with special attention to Borsod-Abaúj-Zemplén, Hajdú-Bihar and Szabolcs-Szatmár-Bereg Counties. The Programme focused on four main areas: Security, Stability, Reform; Environmental protection and Infrastructure; Support of the private sector as well as Human resource and social development.

Following a social dialogue, the first two calls for proposals were published on 31 July 2008, and in November 2008 the National Coordination Unit announced two more calls. During 2009, calls for proposals were announced with regard to further priority areas. Calls for proposals were not announced for five priority areas.

Obligations under the Swiss Contribution can be undertaken within five years following the decision providing the funding made by the Swiss Federal Council on 14 June 2007, in a way that the last project proposals can be submitted two months prior to the final commitment date of 14 June 2012, i.e. before 14 April 2012.

## **3.3. Agricultural subsidies**

### **3.3.1. Macroeconomic conditions affecting agriculture**

Following the political transition, the share of agriculture in employment and in the production of the gross added value of the national economy and, in relation to this, in the production of the gross domestic product (GDP) almost steadily declined, while it fluctuated in investments.

By 2009, the share of the gross production of agriculture in the gross production of the country declined to an all-time low of 3%. Agricultural production was reduced by the fact that following EU accession the livestock diminished almost steadily. Similarly to the international trend, the ratio of those employed in agriculture declined steadily in Hungary as well. While the volume of national economy investments declined by 8.6% in 2009, the 7% growth in the agricultural sector was stimulated mainly by the central subsidies that facilitated investment in machinery.

In 2009, compared to other sectors, the performance of agriculture declined to a lesser extent in the economic crisis that evolved as a result of the global financial crisis, but the financing of the sector became more difficult. The objective of approximately 50% of the projects of the New Hungary Rural Development Programme (NHRDP) is related to development, this is one of the reasons why it is important to sustain financeability.

In order to mitigate the consequences of the economic crisis, the European Commission created an opportunity for those Member States that requested it to divert the ratio of mandatory co-financing of subsidies in 2009 to a ratio favourable for them, and to pay up to 10% less national co-financing within the public expenditure until the end of 2009 (so-called frontloading: temporary increasing of the EU co-financing ratio). For the Member State it means deferred payment, which it has to pay back to the EU budget between 2010 and 2015. Hungary used this opportunity in the fourth quarter of 2009, and starting from January 2010 it paid the higher national co-financing amount in compliance with the replenishment of funds.

### **3.3.2. Financing and institutional system and legal background of agricultural subsidies**

Pursuant to the Council regulation laying down reforms and is about the financing of agricultural policy, the EAGGF, which had funded agricultural policy measures earlier, was replaced by two new funds starting from 2007<sup>41</sup> (Annex 3).

The objective of the European Agricultural Guarantee Fund (EAGF) is the financing of agricultural market subsidies/other interventions and income aids, while the European Agricultural Fund for Rural Development (EAFRD) serves the financing of all rural development expenditures, irrespective of their type or geographical location.

In the new EU budget period Hungary is entitled to use (EU and domestic) funds amounting to EUR 5.45 billion – HUF 1,400 billion – from the EAFRD source (with EU funds amounting to EUR 3.86 billion).

The **New Hungary Rural Development Programme** is the further detailed version of the New Hungary Rural Development Strategic Plan, which contained the priorities of the 2007–2013 development period regarding agriculture and rural development at the level of measures.

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<sup>41</sup> Regulation (EC) No 1290/2005

The four axes of the EAFRD (with shares from the funds): improvement of the competitiveness of the agricultural and forestry sector (46%); improvement of the state of the environment and the countryside (32%); improvement of the quality of life of rural areas and the stimulation of diversification (13%); building up local capacity for the sake of employment and diversification (5%).

Based on the distinction according to the system of financing, certain subsidies of the common agricultural policy were financed **through the national budget**, in the chapter of the Ministry of Agriculture and Rural Development; the subsidies belonging to **legal titles not appearing in the chapter of the Ministry of Agriculture and Rural Development** were paid in advance by the Hungarian state and then reimbursed by the EU. The third group comprised the national additional funding, used to complement the Single Area Payment Scheme.

In 2009, the Minister of Agriculture and Rural Development was the Competent and Managing Authority, while the Agricultural and Rural Development Agency (ARDA) performed the paying agency tasks related to the EAFRD, the EAGF and the EFF. ARDA is an independent legal entity, a central office of national jurisdiction and a budgetary institution with its own financial management under the direction of the Minister of Agriculture and Rural Development; the Agency has a separate title within the budgetary chapter of the Ministry of Agriculture and Rural Development<sup>42</sup>.

In relation to the operation of organisations performing delegated tasks the relevant act contains detailed requirements. ARDA performed certain elements of the authorisation function with the involvement and cooperation of other organs, or saw to their performance through outsourcing of the task.

The customs authority conducted the physical and substitution checks built in the process related to the export procedure of agricultural products regulated by Regulation (EC) No 1276/2008 (earlier: Regulation (EEC) No 386/90) entitled to reimbursement. In addition, the Special Service set up at the Central Control Directorate supervised the implementation of the ex-post audit of companies regulated in Council Regulation (EC) 485/2008 (earlier: Council Regulation (EEC) No 4045/89).

In addition to the EU regulations,<sup>43</sup> Act XVII of 2007 on certain matters concerning procedures applied in connection with agriculture, rural development and fishery subsidies and other measures constituted the national comprehensive regulation, while the rules concerning implementation were included in other Government Decrees and the Decrees of the Ministry of Agriculture and Rural Development. The most important amendments to legislation in 2009 were induced by the questions that arose during implementation and by the introduction of the new systems (cross compliance,

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<sup>42</sup> The changes related to the restructuring of the government are described in the Summary on the year 2010.

<sup>43</sup> Council Regulation (EC) No 1698/2005 of 20 September 2005 on support for rural development by the European Agricultural Fund for Rural Development (EAFRD).

Single Payment Scheme, National Diversification Programme and the amendment to the national agricultural damage mitigation system). In addition, Decrees of the Ministry of Agriculture and Rural Development on the detailed rules of using certain subsidy legal titles and amendments to them were issued continuously in 2009 as well.

### 3.3.3. The national control system of agricultural subsidies

Since the EU accession, the control system of agricultural subsidies has been operating at four levels in Hungary.

The **first level of controls** is represented by accreditation of the institutional system of the Member State Paying Agency (ARDA in Hungary). Within the framework of semi-annual and interim Certifying Body audits, the Competent Authority (Ministry of Agriculture and Rural Development) continuously monitored the fulfilment of the accreditation criteria and the realisation of the findings described in the reports of earlier years. In addition, with regard to the newly introduced EAFRD legal titles, which differed from the administration mechanism of the previously introduced measures from the standpoint of implementation, the Authority decided to conduct a so-called accreditation audit.

The findings of the audit conducted by the Certifying Body regarding the compliance of the Paying Agency with the accreditation criteria are presented in the audits chapter.

The **second level of controls** is represented by the control functions of the Paying Agency and of the Ministry of Agriculture and Rural Development.

The continuous control of the professional and functional activities of ARDA was ensured by the work of the Internal Audit Department and the operation of the (document based and on-site) controls built in the support schemes and in the work processes supported by the IACS.

The regional offices conducted a total of 34,096 checks (12,627 on-the-spot checks) in 2009.

The audits covered the grape-wine product cycle and the vegetable-fruit measures as well as the legal titles of intervention, direct subsidies, accompanying measures and – concerning all axes – of the EAFRD as well.

In the course of repeated audits conducted within the framework of compliance audits, the Certifying Body concluded that the system and operation of the on-site checks were efficient and regular at the Paying Agency. The preparedness of on-site auditors and the equipment of county branch offices was qualified as adequate, although there was a relatively limited availability of cars and other technical devices.

In line with the final accounts reports of the SAO, concerning the performance of tasks by the Internal Audit Department of ARDA, the Certifying Body concluded that the Department performed its tasks in compliance with the applicable legislation and presidential instructions. The uniform traceability of

data and internal comments was ensured in the monitoring system applied by the internal audit.

The Internal Audit Department of ARDA supervised the use of the EU funds of the EAGF, the EAFRD and the EFF, the designated monitoring tasks of ARDOP and SAPARD programmes as well as the economic and financial developments influencing the operation of the national subsidies and of the Agency. Of the 54 planned audits, there were 25 agricultural subsidy and IT audits (21 EAGF and 4 IT), 17 rural development (EAFRD, EFF, SAPARD, ARDOP, NRDP) and 12 economic-financial internal audits; according to methodology there are 37 systems, 4 IT, 8 regularity, 4 financial audits and 1 performance audit.

The audits conducted by the Internal Audit Department proved that the Agency is able to perform the paying agency functions in compliance with the regulations, without high-risk system errors. The organisation and staff of ARDA had adequate knowledge and practical experience to be able to perform the tasks related to the allocation and payment of the subsidies on schedule and precisely.

However, the final accounts report of the SAO pointed out that – similarly to the NDA – the co-ordination between performance of the tasks and human resources was not ensured. On the basis of the diversity and quantity of the problems revealed during the final accounts audit as well as their effect on reliability of the final accounts, the audit gave an unfavourable opinion on the attitude of the management of the Ministry towards audit issues. Therefore, it recommended a reorganisation of work processes, the strengthening of the independent internal audit, the creation of harmony between the task and the resource, the employment of professionally well-prepared personnel and the realisation of the findings detecting the deficiencies.

**At the third level**, based on Community and national legislation, as a non-delegated task, the Hungarian Customs and Finance Guard conducted audits built in the process concerning export procedures with export reimbursement related to the payments of the EAGGF GS and ex-post audit of companies related to payments financed from the EAGGF GS and the EAGF.

Regulation (EC) No 485/2008 obliged each Member State to set up an office (so-called Special Service) that is responsible for the coordination of the ex-post audit of subsidies paid from the EAGF. Based on the above, the Special Service was established as an independent section of the Central Control Directorate of the Hungarian Customs and Finance Guard on 1 May 2004. The ex-post audits related to the payments financed from the EAGF were conducted by the regional audit centres.

Due to suspension, the Special Service of the Central Control Directorate of the Hungarian Customs and Finance Guard did not close seven of the 138 ex-post audits included in the audit plan for the 2008/2009 audit period. Based on the minimum number of scrutinies determined in Regulation (EC) No 485/2008 and on the risk analysis of beneficiaries according to risk factors, 73 economic entities were selected for the 2009/2010 audit period. Based on requests from abroad, the Special Service started 12 scrutinies in 2009, closing four of them, and informed the Member State concerned about the findings of the scrutiny.

In 2009, the Special Service contacted foreign special services on 10 occasions. The execution of audits according to the plan was hindered by the significant number of cross-checks, which were deemed good practice by the Commission audit.

The management and control system of ARDOP financed from the Structural Funds complied with the system of the Structural Funds.

The annual financial accounts and their Commission audits constituted the **fourth level of controls**. The compliance control by the European Commission covering several years evaluated the annual report of the Paying Agency together with the certificate of the **Certifying Body**.

Based on the contract concluded with the Ministry of Agriculture and Rural Development on 30 November 2006, the certifying body activities of the EAGF and EAFRD financial funds for the 2009 EAGF, EAFRD financial year (in the period between 16 October 2008 and 15 October 2009) was performed by KPMG Hungary Ltd. Concerning the drawing of EU funds the protraction of the public procurement procedure posed a risk. The public procurement procedure aiming at the selection of the Certifying Body was under way at the cut-off-date of the Summary (October 2010).

The Certifying Body performed the audit of the annual report of the Paying Agency for the 2009 EAGF, EAFRD financial year, and checked the internal audit systems operated by the Paying Agency.

In 2009, the European Commission paid five and the European Court of Auditors paid three audit visits to Hungary.

The audit conducted between 4 and 8 May 2009 applied to the 2004–2006 and the 2007–2008 periods. During the audit, the measures *Modernisation of agricultural plants* and *Production groups* were checked.

The audit conducted between 6 and 10 July 2009 concerned the 2007–2008 period. The subject of the audit was essentially the Single Area Payment Scheme, partly covering area-based rural development subsidies as well.

The audit regarding the implementation of the EU regulation concerning the supply of the neediest people of the Community with food from the intervention reserves carried out between 30 November and 4 December 2009 reviewed the operation of the Hungarian administration and control system with regard to all phases of implementation (invitation to tender, awarding – contracts – collateral, withdrawals and purchases, approval of charity organisations, all types of control and audits, payment procedures). The audit also included on-site visits to the warehouse of the selected charity organisation, the food distribution sites of the charity organisation and to a processing plant. The audit did not find any shortcomings.

Between 9–13 November 2009, the European Commission conducted an audit regarding export reimbursements and their audits.

With regard to ARDOP, the Commission conducted an audit between 14–15 October 2009 in the subject of withdrawn amounts and pending collections.

The European Court of Auditors examined the effective and efficient implementation of two programmes. Between 16–24 November 2009 it conducted a performance audit in connection with the Agri-environment (NHRDP No. 214) measure, and between 30 March and 3 April with regard to the LEADER programme.

Between 25–27 November 2009, the European Court of Auditors held an on-site audit regarding the EAFRD and EAGF claims to be collected on the basis of EU regulations.

On 2 October 2009, the Commission's audit No. RDO/2007/010/HU conducted in 2007 was closed with a positive result for Hungary. With respect to the ARDOP 2.1.1 and 3.1.3 measures, the Commission held out the prospect of a 10–20% deduction due to irregularities it presumed, but during the bilateral negotiation and the subsequent response ARDA managed to refute the Commission's concerns with properly supported evidence. Consequently, the planned deduction did not take place.

### **3.3.4. Agricultural and rural development subsidies in 2009**

According to preliminary data, HUF 613.3 billion were used for agricultural and rural development subsidies in 2009. This amount exceeded the year 2008 payment by HUF 187 billion. This outstanding drawing of subsidies was allowed by the EU funds (NHRDP payments, subsidies directly paid by the EU, and Single Area Payment Scheme). Within the total support to the sector in 2009, the amounts financed from EU funds and the national budget represented 73% and 27%, respectively.

For 2009, the allocation from EU sources approved by the European Commission for direct subsidies exceeded EUR 768 million (HUF 207 billion), which was complemented by national top-up funding (HUF 78 billion) provided from domestic sources. Availing of the opportunity provided by the European Union to bring payments forward, milk producers received milk subsidies in excess of HUF 16 billion in October 2009. Producers offered some 2 million tons of wheat for cereal intervention, and in addition the Hungarian state also bought up approximately 200 thousand tons of cereals. In 2009, HUF 111.7 billion were spent on 32 national subsidies qualifying as EU conform subsidies.

In 2009, within the framework of the National Compensation System, which was put on new footing and made mandatory, producers received a uniform compensation of 20.5% after the damages through disaster officially acknowledged for 2009 and amounting to approximately HUF 25.4 billion. 3,078 applications (1,695 for the Agricultural investment legal title) were submitted for the measures of the National Diversification Programme, which was opened (re-launched) on 16 November 2009. No payment was effected in 2009.

### **Progress of the New Hungary Rural Development Programme**

Subsidies amounting to nearly EUR 5.5 billion<sup>44</sup>, i.e. nearly HUF 1,400 billion, can be drawn through the measures of the NHRDP, mainly for investments aiming to increase the competitiveness of the agricultural sector and to preserve the values of the natural and rural built environment. The utilisation of these funds was served by the measures of the NHRDP, which centred round the four strategic axes of the programme.

In 2009, (EU + national) subsidies amounting to nearly EUR 656 million<sup>45</sup> were paid with regard to the legal titles of subsidies announced within the framework of the NHRDP (regions falling under the convergence and non-convergence objectives together), representing 24% of the allocation for 2007–2013.

The speciality of the NHRDP is that legal titles of subsidies carried over from the previous programming period were also financed, i.e. the payments carried over to 2009 of certain legal titles (e.g. the Agri-environment, which amounts to 90% of payments) that had started within the framework of the National Rural Development Plan and contained commitments of several years were effected from the fund allocation of the NHRDP. This amounted to 19.86% of the payments in 2009.

With regard to the territorial distribution of the need for funding, the subsidies awarded and the amounts of payments for the year 2009, the regions in the Great Plain played a prominent role. This distribution was a good reflection of Hungary's territorial features. Also decisive was the Southern Transdanubia region, which accounted for a significant part of agricultural production in Transdanubia.

Similarly to the Structural Funds, payments by the Commission were effected in the form of advances and based on expenditure certification declaration. In 2007–2009, the amount of the advance payments and subsidies transferred by the EU exceeded EUR 914 million.

Meeting the liability stemming from the 'n+2' rule is not expected to be a problem, as financial performance was 82.5% until the end of 2010.

#### **3.3.5. Findings of audits regarding agricultural and rural development subsidies in 2009**

In the summary of the audit of the compliance with the accreditation criteria the Certifying Body concluded that the elements of the control system operated by the Paying Agency typically worked well, and no major error was revealed. In some cases (e.g. EAGF control activity) the system was classified as good, but

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<sup>44</sup> The EAFRD allocation for 2007–2013 is EUR 3.8 billion, amounting to EUR 5.45 billion together with national co-financing.

<sup>45</sup> HUF 177.6 billion calculated at an exchange rate of EUR/HUF 270.84.

deficiencies of minor importance were found. The IT systems were deemed adequate in case of both funds, but they need to be improved.

The Certifying Body issued an unqualified opinion for both funds, and established that the report to be submitted to the Commission on the 2009 EAGF and EAFRD financial year ending on 15 October 2009 is reliable, complete and precise in terms of all important aspects with regard to the net total expenditure charged to the debit of the EAGF and the EAFRD. The compliance of the Paying Agency with the accreditation criteria was checked during the audit, according to which the internal audit procedures of the Paying Agency functioned in a satisfactory manner (i.e. efficiently in all important respects) both with regard to the EAGF and the EAFRD.

The Certifying Body issued an unqualified opinion and concluded that the verifying statement was in line with Article 3 of Regulation (EC) No 885/2006 in all important respects regarding the financial year between 16 October 2008 and 15 October 2009.

The audits conducted by the Certifying Body concerning the compliance with the accreditation requirements and operational transactions revealed several errors of medium and minor importance (stemming from the IT system).

- In connection with the accreditation requirement *concerning monitoring*, the Certifying Body concluded – classifying it as an error of medium importance – that the IACS developments were not always able to keep up with the demands imposed by the authorisation of applications, which resulted in a significant delay in awarding the subsidies and effecting the payments and in several cases in the manual administration of the applications to be administered in the IACS (which added to the risk of financial errors) or in erroneous payments calculated by the inaccurate calculation algorithm of the software.
- Consequently, several errors were identified in the case of the area-based rural development legal titles during the audit by the Certifying Body in 2009. Erroneous payments resulting from systematic software errors were found in the case of certain legal titles in earlier years as well.

In the case of most legal titles of funding handled in the IACS, in addition to the errors resulting in erroneous payments, problems were also caused by the delay in the authorisation procedure, the inability to keep deadlines and the disproportionate increase in administration time. The weight of the problem did not decline, indeed, the increased need for development generated by the introduction of a number of new legal titles handled in the IACS just added to it.

In the case of two legal titles some of the errors found during earlier audits by the Certifying Body were not corrected; correcting the error also required IACS development.

- Erroneous decision generation stemming from the faulty operation of the IACS was detected, which was also confirmed by the sample checks. The Paying Agency noticed the error prior to the audit.

Compared to the previous year (when errors of high and medium importance were found), progress was experienced regarding the accreditation requirement concerning the security of IT systems. According to the Certifying Body report on 2009 the errors were of minor importance only, although on the basis of follow-up of the findings of the previous year it can be concluded that further measures became necessary regarding this area. There was progress in authorisation management (with the introduction of a new software), several regulatory documents were completed, but their introduction was delayed.

Further errors of medium and minor importance were identified concerning the audits:

- During the on-site audits related to the authorisation of EAFRD payments, in the case of two legal titles (Skills and Local Action Group financing) the Certifying Body was not always able to ascertain the rationality of the costs and whether they really needed to be accounted for within the framework of the given legal title. The implementation of the two EAFRD legal titles cannot always be separated from one another along the eligibility and support conditions, and this may result in abuses.

The Certifying Body revealed minor shortcomings during the examination of the administrative and on-site audits related to the authorisation of EAGF payments. However, in the course of repeated on-site audits complementing these controls, it concluded that the system and operation of the on-site audits were efficient and regular at the Paying Agency. The preparedness of on-site auditors and the equipment of county branch offices were also adequate, although there was a relatively limited availability of cars and other technical devices.

Based on the follow-up of the findings of earlier years it was established that measures were not taken in each case:

- The problems detailed in the 2007 Certifying Body report in connection with keeping records of the queries of cases under dispute continued to exist. Exceeding the deadline available for handling the appeal was typical in the period under review, but it can be considered progress that the Paying Agency increased the number of personnel performing the tasks.

Both the European Court of Auditors and the Certifying Body revealed deficiencies in the field of **keeping records of and handling the amounts to be collected**.

Based on the comparison of the data supply submitted to the Commission regarding the amounts to be collected and the general ledger records of debtors, the Certifying Body revealed a deviation (classifying it as a shortcoming of medium extent), resulting from the ambiguous definition of the meaning of claims that arose due to intervention losses.

The findings of the European Court of Auditors referred to, inter alia, the deficiencies of the records, which may result in damage to the financial interests of the European Union and jeopardise controllability and traceability. Findings were drawn up with regard to the accuracy of the data supply submitted to the Commission, its missing content elements and the non-systematic calculation method of the interests charged. They called the attention of the Hungarian authorities to the fact that the temporary amounts for structural changes collected in the sugar sector do not have to be indicated in the data supply.

Further shortcomings were established with regard to the **recording and reporting systems**.

During the audit of the IACS statistics of direct subsidies submitted to the Commission, the Certifying Body concluded, as a medium error, that (stemming from the reclaimings and corrections) the data were modified in the IT system, thus it was not possible to subsequently reconstruct the statistical summaries obtained at a given point in time, making the ex-post audit and confirmation of the reliability of statistics impossible.

Concerning the statistics regarding the rural development subsidies from the EAFRD the Certifying Body concluded that their method of compilation was inadequate, the supplied data were not accurate and were not reliable. During the examination of the statistics it was established as a further deficiency that in the period under review the payments of the NRDP Agri-environment from the EAFRD fund were not included in the report.

The Certifying Body pointed out – as an error of medium importance – that stemming from the weaknesses of keeping records of legal disputes the practice of the Paying Agency did not provide sufficient guarantee to enable the estimation of the expected payment data in advance. As a result, concerning the annual financial constraints of direct subsidies, the allocation was exceeded in the case of two legal titles in the previous years.

The audit of the Ministry of Agriculture and Rural Development regarding the realisation of applications for support and payment related to the implementation of the NHRDP legal title 'Procurement of stand-alone machinery and technological equipment not entailing construction' concluded that the implementation of the investment and the subsidy was carried out in line with the objectives. The investment was realised in conformity with the interests of the taxpayers of the European Union.

With regard to the audits concerning the Modernisation of agricultural plants and the Producer groups measures, the European Commission criticised that the payment request submitted by the beneficiary did not include copies of

invoices, only certain invoice data on a form, which, in the opinion of the Commission, made the audit more difficult. In the opinion of the Commission, an audit covering all invoices would be the right method, as it concerns a significant amount of subsidies. The price paid by the beneficiary was often much lower than the reference price indicated in the price database. With regard to the producer groups, the Commission called attention to the fact that the producers have to sell all their crops through the producer group. It was deemed to be an error that most of the subsidy was determined on the basis of production sold prior to the acknowledgement.

The Commission audit of the Single Area Payment Scheme established a contradiction regarding the statistical data supplied. Problems arose in connection with the payment of the non-eligible subsidies paid as well as in connection with the erroneous calculation of payments and sanctions.

The Commission audit of export reimbursements revealed deficiencies belonging to the competence of the Central Agricultural Office concerning the compliance with the requirements regarding the livestock transportation underlying the export reimbursement, the data of the tachograf, the requirements vis-à-vis transport vehicles and the condition of the livestock.

The European Court of Auditors examined whether the LEADER contributed to the improvement of rural development. In the opinion of the audit, the project selection procedure of the action group was open and documented. The decision-making body of the action group was a partnership representing the public and private spheres and covering several sectors. From the aspect of the effective and efficient implementation of the programme, the audit evaluated unfavourably that the procedures applied did not ensure the realisation of all strategic objectives (60% of the planned projects were implemented) and the most efficient and most economical utilisation of resources (the deadweight effect and the justification of costs) were not examined. Evaluating the effective and efficient realisation, the audit pointed out that the system of the administration (long processing times and heavy administrative burdens) did not conform to the specific features of the programme (smaller-scale projects), having an unfavourable effect on the willingness to submit applications, on the progress of projects and the level of operating costs. The audit did not consider it proven that the programme (which is Axis 4 of the NHRDP) contributed to the objectives of the NHRDP.

### **3.3.6. SAPARD**

Within the SAPARD Programme, funds amounting to a total of nearly EUR 160 million were available for Hungary between 2000 and 2006. With its Decision C (2007) 6047 of 10 December 2007, the European Commission accepted the final Implementation Report and financial statement of Hungary concerning the implementation of the SAPARD Plan in the period between 2000 and 2006, which served as a basis for the final financial accounting and the final transfer in 2008. No payments have been effected from Community or national sources since 2008.

Accordingly, in 2009 – in the third calendar year following the closing of the SAPARD Programme in Hungary – the audit by the Certifying Body was directed at the SAPARD agency tasks concerning the operation period of the projects and the management of the outstanding claims.

As a separate subject, the year 2009 SAPARD Certifying Body audit covered the 2009 financial closing of the projects as well as the examination of the rules of procedure related to irregularity management and the projects concerned.

Following the closing of the programme, the monitoring during operation (including the monitoring of the implementation and operating of the projects as well as performing the programme monitoring tasks) and conducting the related ex-post audits are the tasks of ARDA (the legal successor of the SAPARD Agency).

Similarly to the findings of previous years, the Certifying Body pointed out that the human resource capacity was still not sufficient in each branch office to perform the SAPARD monitoring tasks.

Significant shortfalls were experienced in carrying out the document-based monitoring activities in the case of several branch offices in the evaluation of the annual reports, in the preparation of the reports and concerning the continuous management of the documents in the monitoring folder. In addition, attention was called to review of the accuracy of the database.

In connection with the repeated audit of the ex-post on-site audits conducted by the Paying Agency, the Certifying Body concluded that the professional knowledge and qualifications of the branch office and central auditors were also adequate. However, the effect of the heavy workload of the personnel also attending other tasks was felt in this area as well. The planning and conducting of the ex-post on-site audits were in line with the regulations, although an error of medium importance was identified in the sampling method, as the central audit unit did not repeat the on-site visit conducted by the branch offices, but performed ex-post on-site monitoring activity independent of the branch offices. Thus the central organisational unit did not fulfil its supervisory function.

Moreover, in relation to the review of the ex-post audits, it was recommended to make it controllable by amending the Operational Manual whether during the ex-post on-site visit the auditors inspected the accounting records serving as a basis for the funding. Namely, their copies were not always attached, or they did not bear the official stamp proving the audit.

In connection with the audit of the financial closing of projects it was established that the Operational Manual adequately contained the tasks related to the financial closing of the SAPARD projects, such as the rules of procedure regarding the cancellation of lien, authorisation letters and other collaterals. In the selected folders, the communication with the beneficiary relating to the financial closing and the documentation were found adequate.

During the audit of the rules of procedure of irregularity management it was concluded that the rules of procedure provide sufficient scope for action for the Agency for withdrawal and cancellation due to irregularity, and do not allow the Agency to initiate unlawful withdrawal. In the course of the project file based audit conducted at the branch offices it was found that the issues were traceable, and the documents of the irregularity management procedure were available in the project folders.

Based on its examination, the Certifying Body deemed the completeness, accuracy and handling of the records of claims adequate.

Annexes: 4 ea 13 pages

## **ANNEXES**

- Annex 1      Budgetary relations between Hungary and the European Union  
2004–2009
- Annex 2/A    EU subsidies included in the bill on the execution of the 2009 budget of  
the Republic of Hungary and the related national co-financing
- Annex 2/B    EU subsidies implemented via out-of budget funding
- Annex 3      Structural changes in agricultural subsidies between the budget periods  
of 2000–2006 and 2007–2013
- Annex 4      Audits, summaries and reports relevant to the year 2009 serving as the  
basis for the present Summary



## Budgetary relations between Hungary and the European Union 2004–2009

HUF million

<b>Cocontribution to the EU budget</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>
Customs duties	13,461.0	26,571.9	26,913.8	27,980.9	26,689.4	24,883.2
Sugar levies/production charges	—	1,546.6	600.0	-59.4	1,637.4	471.1
<b>Total Traditional own resources</b>	<b>13,461.0</b>	<b>28,118.5</b>	<b>27,513.8</b>	<b>27,921.5</b>	<b>28,326.8</b>	<b>25,354.3</b>
VAT-based contribution	19,111.5	26,820.8	30,456.5	34,905.2	38,534.0	32,082.8
GNI-based contribution	88,320.3	141,970.7	139,025.9	135,668.5	149,643.8	159,188.9
UK correction	12,289.6	17,478.6	16,129.5	18,946.3	22,403.2	16,135.8
Dutch-Swedish GNI (from 2009 on)						1,707.0
(One-off) Additional payment						14,543.4
<b>Total National contribution</b>	<b>119,721.4</b>	<b>186,270.1</b>	<b>185,611.9</b>	<b>189,520.0</b>	<b>210,581.0</b>	<b>223,657.8</b>
<b>Other</b>		<b>374.4</b>	—	—	—	—

HUF million

<b>Support titles included in the national budget</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>
National Development Plan	5,608.3	121,834.2	233,115.2	209,521.4	116,753.8	32,037.1
New Hungary Development Plan				10,003.1	124,957.5	468,807.9
Other structural assistance	1.8	968.7	7,953.8	11,642.3	8,251.2	2,625.0
Cohesion Fund/ISPA	19,625.1	44,410.6	100,188.0	94,682.6	107,444.4	123,478.8
Schengen Facility	0.0	3,248.9	9,678.6	35,580.3	591.1	
National Rural Development Plan	0.0	49,681.8	65,938.4	66,835.7	9,911.8	810.7
New Hungary Rural Development Programme				18,704.2	84,803.0	184,496.6
SAPARD	14,949.5	29,712.0	9,196.3	1,398.3	-	183.8
Fisheries Operational Programme						52.7
PHARE/Transition Facility	43,841.6	32,801.5	39,937.6	5,203.5	4,386.8	1,464.3
Other EU assistance	—	2,027.3	4,484.1	5,440.1	11,896.8	15,290.2
<b>Total financial assistance (EU+central budgetary resources)</b>	<b>84,026.3</b>	<b>284,685.0</b>	<b>470,492.0</b>	<b>459,011.5</b>	<b>468,996.4</b>	<b>829,247.1</b>
Refunds (including the subsequent refund of EU assistance)	42,813.4	8,457.7	7,773.9	—	51,102.6	36,822.1
<b>Total of EU financial assistance and central budgetary resources included in the budget</b>	<b>126,839.7</b>	<b>293,142.7</b>	<b>478,265.9</b>	<b>459,011.5</b>	<b>520,099.0</b>	<b>866,069.2</b>

HUF million

<b>Out-of-budget items financed directly through the Single Treasury Account</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>
Agricultural subsidies*	855.0	159,133.3	19,826.5	47,653.2	47,623.7	91,421.0
Single Area Payment Scheme	77,647.0	148,022.9	93,405.7	119,992.1	156,173.0	228,712.1
<b>Total</b>	<b>78,502.0</b>	<b>307,156.2</b>	<b>113,232.2</b>	<b>167,645.3</b>	<b>203,796.7</b>	<b>320,133.1</b>

\*agricultural marketing and intervention subsidies

Sources: SAO reports on the execution of the budget of the given year

**EU subsidies included in the bill on the execution of the  
2009 budget of the Republic of Hungary and the the  
related national co-financing**

HUF million

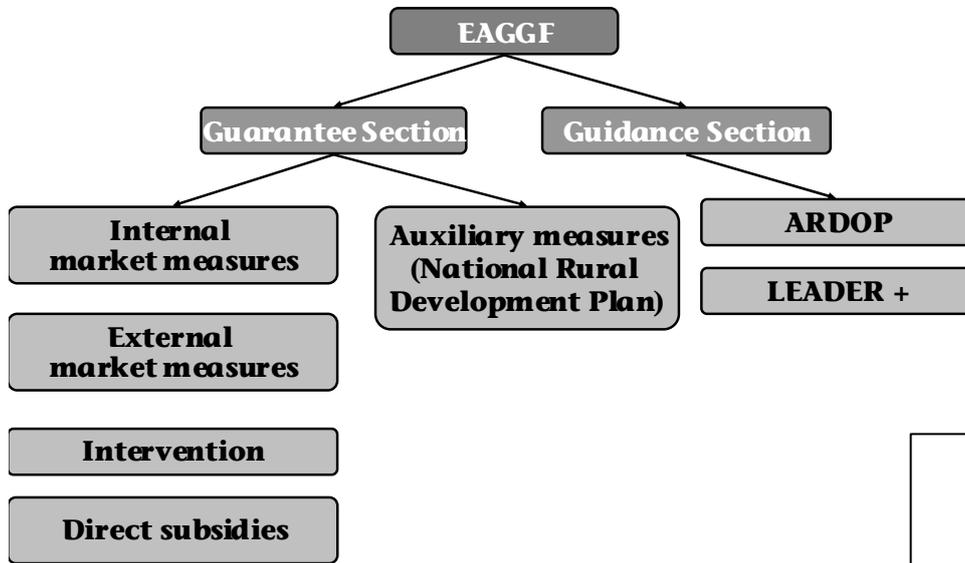
Amounts included in the central budget as funds received from, or transferred to the EU, and the related national co-financing resources	Expenditures from EU resources	Expenditures from central budgetary resources	Total Expenditure
National Development Plan	0.0	32,037.1	32,037.1
Cohesion Fund	67,473.9	56,004.9	123,478.8
New Hungary Development Plan	390,619.1	78,188.8	468,807.9
Other structural assistance	315.9	2,309.1	2,625.0
National Rural Development Plan	0.0	810.7	810.7
New Hungary Rural Development Programme	137,158.4	47,338.2	184,496.6
Fisheries Operational Programme	39.5	13.2	52.7
SAPARD	0.0	183,8	183,8
Transition Facility	882.8	581.5	1,464.3
Other EU financial assistance	6,251.9	9,038.3	15,290.2
Refunds (including the subsequent refund of EU assistance)		36,822.1	36,822.1
<b>Total financial assistance</b>	<b>602,741.5</b>	<b>263,327.7</b>	<b>866,069.2</b>

## EU subsidies implemented via out-of-budget funding

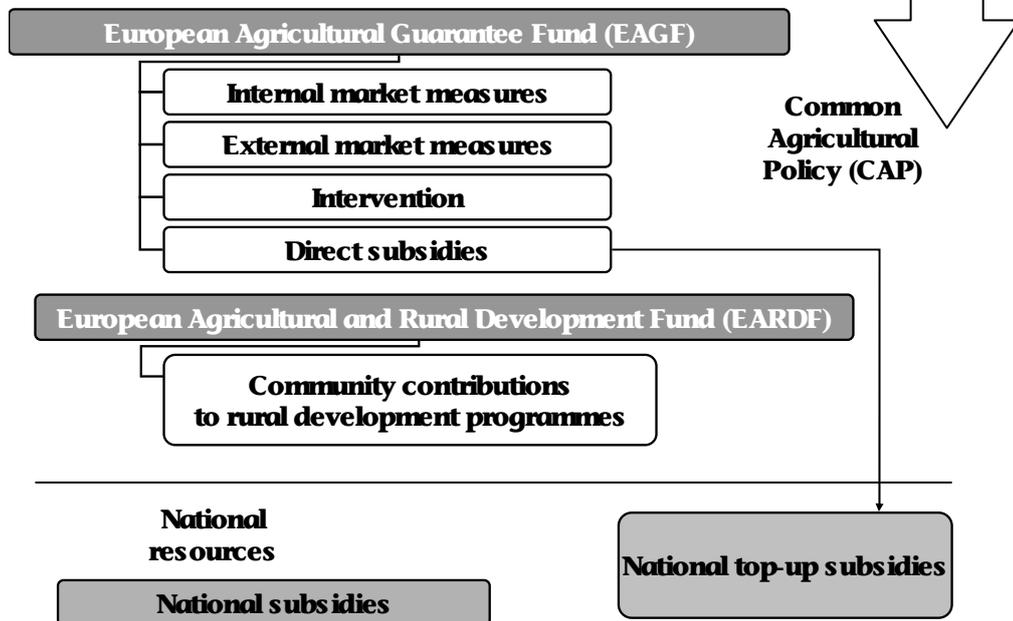
<b>Out-of-budget items financed directly through the Single Treasury Account</b>	<b>Total Single Treasury Account financing (HUF million)</b>
<b>Direct subsidies to producers (SAPS)</b>	<b>228,712.1</b>
<b>Agricultural marketing subsidies</b>	<b>89,072.0</b>
Export subsidies	1,552.4
Internal market subsidies	73,995.9
Other agricultural market subsidies	13,535.9
Of which: separated sugar subsidies	9,180.8
<b>Market interventions</b>	<b>2,349.0</b>
Reimbursement of intervention related warehousing and transportation costs	1,853.6
Reimbursement of intervention related financing costs	495.4
<b>Total out-of-budget items</b>	<b>320,133.1</b>

## Structural changes in agricultural subsidies between the budget periods of 2000–2006 and 2007–2013

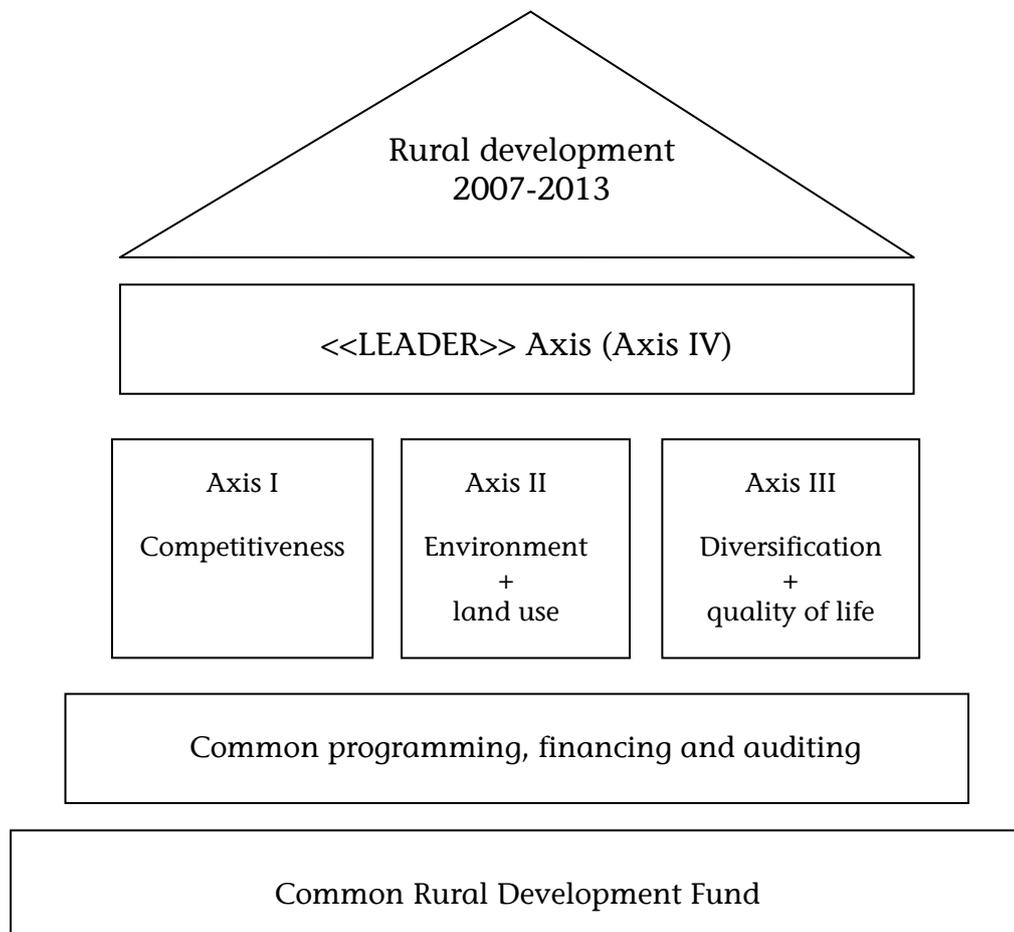
Structure of the Common Agricultural Policy until 2006



The structure of the Common Agricultural Policy since 2007



Axes of the European Agricultural Fund for Rural Development



## **Audits, summaries and reports relevant to the year 2009 serving as a basis for the present Summary**

### **Audits conducted by the SAO**

<b>Audit title</b>	<b>Reference number</b>
Report on the Audit on the Utilization of Grants Provided from the Cohesion Fund and National Sources for Solid Waste Management	0920
Report on the Audit on the Implementation of Priority Wastewater Management Projects Financed by the Cohesion Fund and National Resources	0948
Report on the Audit on the Processes of Managing Irregularities, Debts and Financial Claims relevant to the Utilization of EU Funds	1010
Report on the Audit of the Execution of the Budget of the Republic of Hungary for the Year 2009	1016
Report on the Audit of the Financial Management System of Local Governments in 2009	1019

### **Reports compiled by the Government Audit Office**

<b>Report title</b>	<b>Reference number</b>
Summary report 2009 on the Cohesion Fund pursuant to Article 12 of Regulation (EC) No 1386/2002	13-206/4/2010.
Final declaration and report – Cohesion Fund – 2000/HU/16/P/PE/005 – Szeged Regional Waste Management Programme	13-449/1/2009.
Hungary–Slovakia–Ukraine Neighbourhood Programme (CCI number: 2004CB160PC002): Hungarian part of the Closing Statement pursuant to Article 38(1) f) of Regulation (EC) No 1260/1999 and Article 15 f) of Regulation (EC) 438/2001	13-26/25/2010.
Hungary–Slovakia–Ukraine Neighbourhood Programme (CCI number: 2004CB160PC002): Final Declaration	
Hungary–Romania–Serbia and Montenegro Cross-border Cooperation Programme (CCI number: 2003/CB/16/0/PC/002): Closing Statement pursuant to Article 38(1) f) of Regulation (EC) No 1260/1999 and Article 15 f) of Regulation (EC) 438/2001	13-147/2010.
Hungary–Romania–Serbia and Montenegro Cross-border Cooperation Programme (CCI number: 2003/CB/16/0/PC/002): Final Declaration	

Austria–Hungary INTERREG IIIA Community Initiative (CCI number: 2000CB160PC003): Hungarian part of the Closing Statement pursuant to Article 38(1) f) of Regulation (EC) No 1260/1999 and Article 15 f) of Regulation (EC) 438/2001	13-26/17/2010.
Austria–Hungary INTERREG IIIA Community Initiative (CCI number: 2000CB160PC003): Sub-Final Declaration	
PHARE and Transition Facility summary report 2009	13-179/7/2010.
Summary audit report 2009 – EEA and Norwegian Financing Mechanisms	13-12/13/2010.
Annual summary report on the structural measures and the European Fisheries Fund – 2009	13-11/4/2010.
Annual audit report on the period between 1 July 2008 and 30 June 2009 of the State Reform Operational Programme and the Electronic Public Administration Operational Programme based on Article 62(1) d) of Council Regulation (EC) No 1083/2006	13-433/29/2009.
Annual opinion regarding the State Reform Operational Programme and the Electronic Public Administration Operational Programme	13-433/34/2009.
Annual audit report on the period between 1 July 2008 and 30 June 2009 of the Economic Development Operational Programme based on Article 62(1) d) of Council Regulation (EC) No 1083/2006	13-56/25/2010.
Annual opinion based on Article 62(1) d) ii of Council Regulation (EC) No 1083/2006 and Article 18(2) of Commission Regulation (EC) No 1828/2006 – Economic Development Operational Programme	13-56/25/2010.
Annual audit report on the period between 1 July 2008 and 30 June 2009 of the Environment and Energy Operational Programme based on Article 62(1) d) of Council Regulation (EC) No 1083/2006	13-433/21/2009.
Annual opinion regarding the Environment and Energy Operational Programme	13-56/21/2010.
Annual audit report on the period between 1 July 2008 and 30 June 2009 of the Central Hungary Operational Programme based on Article 62(1) d) of Council Regulation (EC) No 1083/2006	13-433/18/2009.
Annual opinion regarding the Central Hungary Operational Programme	13-56/23/2010
Annual audit report on the period between 1 July 2008 and 30 June 2009 of the regional operational programmes falling under the Convergence objective based on Article 62(1) d) of Council Regulation (EC) No 1083/2006	13-433/19/2009.
Annual opinion regarding the operational programmes falling under the Convergence objective	13-433/33/2009.
Annual audit report on the period between 1 July 2008 and 30 June 2009 of the Social Renewal Operational Programme and the Social Infrastructure Operational Programme based on Article 62(1) d) of Council Regulation (EC) No 1083/2006	13-433/16/2009.
Annual opinion regarding the Social Renewal Operational Programme and the Social Infrastructure Operational Programme	13-56/24/2010.
Annual audit report on the period between 1 July 2008 and 30 June 2009 of the Transport Operational Programme based on Article 62(1) d) of Council	13-433/27/2009.

Regulation (EC) No 1083/2006	
Annual opinion regarding the Transport Operational Programme	13-56/22/2010.
Annual audit report on the period between 1 July 2008 and 30 June 2009 of the Implementation Operational Programme based on Article 62(1) d) of Council Regulation (EC) No 1083/2006	13-56/26/2010.
Annual opinion regarding the Implementation Operational Programme	
Regional Development Operational Programme (CCI number: 2003/HU/16/1/PO/001): Closing Statement pursuant to Article 38(1) f) of Regulation (EC) No 1260/1999 and Article 15 f) of Regulation (EC) 438/2001	13-148/2010.
Regional Development Operational Programme (CCI number: 2003/HU/16/1/PO/001): Final Declaration	
Economic Competitiveness Operational Programme (CCI number: 2003 HU 161 PO 002): Closing Statement pursuant to Article 38(1) f) of Regulation (EC) No 1260/1999 and Article 15 of Regulation (EC) 438/2001	35-375/1/2010.
Economic Competitiveness Operational Programme (CCI number: 2003 HU 161 PO 002): Final Declaration	
Environment and Infrastructure Operational Programme (CCI number: 2003 HU 161 PO 003): Closing Statement pursuant to Article 38(1) f) of Regulation (EC) No 1260/1999 and Article 15 of Regulation (EC) 438/2001	35-376/1/2010.
Environment and Infrastructure Operational Programme (CCI number: 2003 HU 161 PO 003): Final Declaration	
EQUAL Community Initiative (CCI number: 2004 HU050PC 001): Closing Statement pursuant to Article 38(1) f) of Regulation (EC) No 1260/1999 and Article 15 of Regulation (EC) 438/2001	35-377/1/2010.
EQUAL Community Initiative (CCI number: 2004 HU050PC 001): Final Declaration	
Agriculture and Rural Development Operational Programme (CCI number: 2003 HU 061 PO 001): Closing Statement pursuant to Article 38(1) f) of Regulation (EC) No 1260/1999 and Article 15 f) of Regulation (EC) 438/2001	35-386/1/2010.
Agriculture and Rural Development Operational Programme (CCI number: 2003 HU 061 PO 001): Final Declaration – EAGGF	
Agriculture and Rural Development Operational Programme (CCI number: 2003 HU 061 PO 001): Final Declaration – FIG	
Human Resources Development Operational Programme (CCI number: 2003 HU 05 1 PO 001): Closing Statement pursuant to Article 38(1) f) of Regulation (EC) No 1260/1999 and Article 15 of Regulation (EC) 438/2001	35-388/1/2010.
Human Resources Development Operational Programme (CCI number: 2003 HU 05 1 PO 001): Final Declaration	

## Reports of the Paying/Certifying Authority

Audit title	Reference number
Ministry of Finance National Authorising Officer's Office – Report on the year 2009 professional activity of the Office	5420/2010.
Internal Audit Unit of the Ministry of Finance National Authorising Officer's Office – Annual Audit Report 2009 (15 March 2010)	5420/2010.
Reports related to fact-finding visits	

## Reports of the National Development Agency

Report title	Reference number
Report on the utilisation of the development funds from the European Union – New Hungary Development Plan (2007–2013), National Development Plan (2004–2006) and International programmes (April 2010)	
NDA Internal Audit Department – Annual audit report on the activities carried out in 2009 (May 2010)	
National Strategic Report according to Council Regulation (EC) No 1083/2006 – Hungary (Cut-off date: 30 September 2009)	
Closing Implementation Report on the realisation of the Regional Development Operational Programme (Cut-off date: 26.02.2010)	
Review of the results of the Structural Funds of the European Union achieved to date in Hungary in the 2007–2013 programming period	
The situation of the Single Monitoring and Information System from the aspect of operation and further development	
Closing implementation report on the implementation of the Regional Development Operational Programme (Cut-off date: 26.02.2010)	
Closing implementation report on the implementation of the Economic Competitiveness Operational Programme (Cut-off date: 16.08.2010)	
Closing implementation report on the implementation of the Environment and Infrastructure Operational Programme (Cut-off date: 15.09.2010)	
Closing implementation report on the implementation of the Agriculture and Rural Development Operational Programme (Cut-off date: 26.02.2010)	
Closing implementation report on the implementation of the Human Resources Development Operational Programme	
Closing implementation report on the implementation of the EQUAL Community Initiative	

**Audits by the European Commission**

<b>Audit title</b>	<b>Reference number</b>
Compliance audit based on Article 7(4) of Regulation (EC) No 1258/99 and Article 31 of Regulation (EC) No 1290/2005 (export reimbursements, sugar market, livestock)	EX/2009/008/HU.
ERDF, Cohesion Fund and ESF: determining the error ratio for the EU 27 Member States and the 2007–2013 programming period (Economic Development Operational Programme (CCI: 2007HU161PO001))	2009/HU/REGIO/J2/791/1
ERDF, Cohesion Fund and ESF: determining the error ratio for the EU 27 Member States and the 2007-2013 programming period (Implementation Operational Programme (CCI: 2007HU161PO010))	2009/HU/REGIO/J2/797/1
ERDF – Cohesion Fund, audit of public procurements (2000–2006 period)	2009/HU/REGIO/J2/770/1
Systems audit of the State Reform Operational Programme	

**Audits by the European Court of Auditors**

<b>Audit title</b>	<b>Reference number</b>
Audit related to agricultural environmental management measures (NHRDP measure 214)	PF-3786
Audit related to the statement of assurance for the 2009 financial year (Cohesion Fund 2000–2006)	PF-3336
Audit regarding the LEADER	PF-3361
Audit related to the statement of assurance for the 2009 financial year (Economic Development Operational Programme No 2007HU161PO001)	PF-3461
Audit related to the statement of assurance for the 2009 financial year (Environment and Energy Operational Programme, Cohesion Fund 2007-2013) – Audit of the legality and regularity of the payments effected within the framework of the cohesion policy and evaluation of the management and control systems	PF-3445
Audit related to the EAGF and EAFRD amounts to be collected pursuant to Council Regulation (EC) No 1290/2005 as well as Commission Regulations (EC) No 885/2006 and No 1848/2006	PF-3591
Audit of the simplified customs procedures regarding the release of goods for free circulation	PF-3404(6165)

## **Audit reports on agricultural subsidies prepared by the Member State**

Report on the year-end audit of the implementation of the EAGF and EAFRD in 2008/2009 conducted by the Certifying Body (27 January 2010)

Report on the audit of the implementation of the SAPARD in 2009 conducted by the Certifying Body (29 April 2010)

Annual Report of the Special Service of the Hungarian Customs and Finance Guard

Annual report of the Internal Audit Department of the Agricultural and Rural Development Agency on the year 2009 BL/1 116/2/2010

Report on the progress in 2009 of the implementation of the New Hungary Rural Development Programme

Closing Implementation Report on the realisation of the Agriculture and Rural Development Operational Programme

## **Other reports**

Report on the activity of the General Government Internal Financial Audit Inter-departmental Committee EU Subsidies Sub-committee in 2009

Lifelong learning programme – Report of the National Bureau – 1 January – 31 December 2009

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OLAF Coordination Bureau – Summary for the minister responsible for the tax policy (27 May 2010)

## **Evaluations**

Evaluation closing report – evaluation entitled ‘Development of business infrastructure (ECOP 1.2)’ Hungarian Evaluation Consortium

Preliminary evaluative study related to the amendment to the operational programmes of the NHDP 30 June 2009 KPMG Tanácsadó Kft. EU and governmental group

Closing Evaluative Report for the National Development Agency on the project *Evaluation of the financing system of the intermediate bodies of the NHDP, preparation of the review of the financing system* (05.11.2009) EXISTIMO Consortium