

Summary of the Audit on Environmental Programmes Financed by ISPA Assistance (0469)

The regular audit of the use and utilization of financial assistance granted by the European Union has high priority among the strategic objectives of the State Audit Office of Hungary. One of the ISPA assistance's objectives is to develop the Hungarian environmental infrastructure, namely to accelerate the catching up with EU environmental standards. With the help of the ISPA assistance, the Hungarian environmental protection programmes, the sewage purification, the regional waste management could be realised in a shorter period of time than relying solely on Hungarian resources. With that the EU has contributed to the reduction of our backwardness from the EU norms.

Since 2000 the ISPA instrument has provided Hungary with a support limit of € 88 million per year, shared in 50-50 percent between the development objectives concerning environmental protection and transportation. In the period of 2000-2003 Hungary has contracted an amount of €332,7 million from the support limit available for environmental protection purposes. The implementation of the projects started with a several years' delay, thus the earliest project financed by ISPA support will be finished only between 2006-2008. We audited the following 4 of the 19 building projects: the development of the wastewater purification plant in the town of Győr; the development of the wastewater purification plant and sewage system in the town of Szeged; moreover the regional solid waste collection projects in county Hajdú-Bihar and in the town of Miskolc. The total value of these projects is €113 million, which amounts to 21 % of the project value approved 'till 2006.

In the period of 2000-2004 the building up of the institutional and regulatory conditions had been continuously changing and of following nature, moreover there were two or three years' delays in the investment processes. As a consequence, the Hungarian conditions and circumstances have not supported the smooth and efficient use of ISPA assistance, concerning the environment protection.

In the case of ISPA programme, the priorities of the environment protection development's resources succeeded only partially. The relevant regulation did not settle the responsibility for the project planning and preparation, the conceptual aspects of the resources allocation, as well as the assignment of resources to the interested parties' disposal, from the local government beneficiaries to the central budget. The utilization of domestic resources was not coordinated with the strategic development objectives; there was no proper

attention paid to the compliance with the EU regulations, neither to the harmonization of the resources allocation with the regional interests either.

The strategy elaborated for the receipt of ISPA assistance was only partially realised because, at the beginning of the programme, only a limited number of appropriately prepared projects that met the requirements. This process accelerated in 2002 and 2003, and helped to improve the contracting capabilities, adjusted to the EU assistance possibilities.

The conditions of selecting project proposals that comprised also the phases of planning and preparation did not include the criteria of partnership's enforcement and the coordination of social interests, nor the financing resources. Due to the lag of social coordination it had happened that because of lack of social receptiveness the location of a project, already approved by EU, became uncertain. The subsequent arrangement of the social coordination caused additional expenses related to the referendum besides, due to the change of location, the technological content had to be changed, it was necessary to re-plan the project and all this caused additional expenses that had to be financed solely by national funds. These costs were not planned in the Financing Agreement, the original project budget increased and this resulted in the diminution of the proportion of ISPA assistance and in the increase of the proportion of national co-financing. The expenses of the corrections reduced the efficiency of the utilisation of development sources.

Due to the existing differences between the regulation of Hungarian and EU public accounting ISPA institutions, their staff responsible for the accounting had to meet the requirements of two different book-keeping and reporting systems and they had to elaborate systems suitable for these requirements. For the European Commission, the reporting of the use of ISPA assistance, the financing position of the projects had to be prepared on accruals basis, showing the progress; while the Government Decree on the reporting obligation prescribed for Hungarian public institutions was of a budget-type system focusing on the turnover aspect.

Apart from establishing an extensive circle of regulatory and control systems within the ISPA programme, the preparation, planning and technical management of the project had not receive the necessary support required by the technical contents. As a consequence of the lack of the technological, professional preparedness and experience, as well as that of capacity, the operation of the project management, the arrangement of the public procurement procedures, the system of resource-allocation among the final beneficiaries, the current contracting and technological supervisory system, were inadequate. These insufficiencies have implied management risks, which manifested itself in such cases, when the constructor, the engineer or the accredited expert executed their tasks occasionally contrary to their obligations contacted.

The monitoring system defined by the regulations was built up and it operates. The project and programme monitoring joined the process in its realization phase, therefore they could not influence effectively the delays caused by the planning and the preparatory works; the monitoring could only consider them afterwards.

Since the accession date, the ISPA assistance amounts, contracted between 2000 and 2004, have been qualified as the parts of the Cohesion Fund therefore from that time on the CF regulations have been in force. The two instruments of financial assistance were built on each other; the operation of regulatory and institutional system of ISPA served the preparations for the receiving of the Cohesion Fund.

The accreditation process in connection with the transition to the EDIS procedures relating the ISPA institutions in the candidate countries was not completed by the date of accession, because the Commission did not find the preparatory level of the institutional system relating the ISPA 's environmental sector adequate. The unsuccessful accreditation did not hinder the use of assistance resources, but the correction of explored insufficiencies to comply with the Cohesion Fund regulations, poses extra tasks for the institutions.

It shows a favourable trend that during the closing of our audit, 5 project proposals financed by the Cohesion Fund were under judgement, which exceed by €80 million the environmental protection framework available for 2004-2006. This is a positive change, since the thorough preparation may improve, the execution may speed up, and all these render possible the complete utilisation of financial limits designated for the development of environmental protection.

Recommendation was made to the Government to coordinate in collaboration with the related ministries the establishment of a financial source's structure that fits the development strategy concerning the environment protection, is built on each other and also contains possible EU and national resources. In the course of the budget planning and the budget implementation attention should be paid to the provision of the co-financing sources in accordance with the approved schedule and the resources of the local governments. It should also arrange for the financing of the preparations of the project proposals suitable to the EU requirements; moreover it should improve the efficiency of preparatory works in the interest of increasing the absorption capacity of Hungary.

Recommendation was made to the Minister without portfolio responsible for European affairs to determine criteria and guarantees of partnership and assertion of social interest co-ordination, moreover that they should create the right conditions for social agreement in connection with the technological preparatory measures. Recommendation was made to the Minister without portfolio responsible for European affairs to elaborate the annual scheduling of

the implementation of EU Cohesion Fund financed projects, to determine the useable time-limits by the stages of procedure and to ensure the necessary instruments for the compliance with the timing. He was also asked to initiate the completing of the EMIR system and to expand the monitoring system to the division of labour between the Cohesion Fund Intermediate Body and the final beneficiary and also to expand it to the authorisation processes. Recommendation was made to the Minister of Environment Protection and Water Management to elaborate a proposal on the scheduled application for environmental protection development sources and on the increase of the absorption capacities.

The full-text Hungarian audit report is available on Internet (www.asz.hu).