

0120 Summary of auditing the claim to and use of the ear-marked and special purpose support provided to the investment and reconstruction projects of the local governments in 2000

The CXXV Act of 1999 on the year 2000 Budget of the Hungarian Republic provided 52, 300 million HUF appropriation for the ear-marked and special purpose support. This appropriation was increased by the residue of 34, 458 million HUF, not used until the end of 1999. Taking into consideration the mid-year renouncement and repayment and the amounts ploughed back from these, a total of 82, 563 million HUF ear-marked and special purpose support was available for the local governments in 2000. In addition to this, a part of their own resources was redeemed or supplemented by funds, through an application system, from appropriations managed by certain chapters, like the water management ear-marked appropriation (VICE), the environmental protection fund objective (KAC), in addition, from the decentralised financial funds of the county regional development councils (capital city general assembly) – the development fund with the aim of regional equalising (TERKI), and the decentralised fund of objectives (CÉDE).

In the course of the on the spot audits, we have checked 149 investments with 96 local governments in 18 counties, that is 33.9% of the total of ear-marked and special purpose support available for the local governments in 2000, within this, 12% of the ear-marked support and 48.5% the special purpose support.

We have audited 20 projects of those implemented by ear-marked support with 18 local governments. 6 of these belonged to water management, while 14 to the education and cultural services.

In the audit there were 129 investments by special purpose support with 82 local governments, the great majority of which were related to waste water disposal and cleaning in 127 investment projects with 80 local governments, while 2 other projects, in the field of educational and cultural services, have been checked at 2 local governments.

After the enactment of the LXXXIX Act of 1992 (henceforth: Cct.) in 1993 regulating the system of ear-marked and special purpose support for the local governments, the aim of the audits has been to check if the law is observed. In the eight-year-long period, following the enactment in 1993, the audits of 2,034 projects have been carried out at about 40% of the local governments.

In the course of auditing the use of the 1997 ear-marked and special purpose support, we checked the use of state support for 210 investments with 104 local governments, that is 40% of the total appropriation. In our report we made a recommendation to have 489 million HUF unlawful claim to support repaid and to decrease the amount of appropriation in a value of 785 million HUF. In the course of checking the use in 1998, we have performed audits into 191 investments with 103 local governments. We audited 49% of the total amount of appropriation and made a recommendation to have 469 million HUF unlawful claim to support repaid and to decrease the amount of appropriation in a value of 1,100 million HUF. During the audits in 1999, we checked task performance in 127 cases on the spot, at 88 local governments, which was 22% of all the appropriation. Unlawful claim

was found related to 191 million HUF, in which cases we recommended repayment, and initiated the decrease of appropriation in a value of 440 million HUF.

The system of ear-marked and special purpose – due to, in part, the previous recommendations of the State Audit Office – became more regulated and easier to check following the amendment of Cct. in 1998. The modernising changes have produced the desired effect in the whole system since 1999. In regulation and the decision-making system, those elements were strengthened – with the requirement of making feasibility studies – which helped the choice of the more reasonable and advantageous investments, and focus on the efficiency of in the field of waste water disposal and cleaning.

In the case of the capital intensive waste water utility investments, the local governments, in order to gain special purpose support, wanted to ensure the necessary ‘resources of their own’ from other state support (like VICE, KAC, TERKI, CÉDE). Therefore, following their winning central support, they applied for other state support right after starting the investment. Although the provision of funds necessary to the development projects was regulated in a Government decree about the operation system of the state household, in practice, however, the organisations in charge of the management of these funds could not bring their work in line with the distribution of special purpose support.

It was still a problem, indicated already in the previous period, that state support from other central sources was granted in a system and schedule different from those of the normal central support (special purpose support). Certain systemic errors also occurred, but those in charge of managing the other central financial resources responded with difficulties and in different ways to the rescheduling of resources unused in the current year and to the fact that VAT had become deductible. In addition, the decision-making process was lengthy at the organisations in charge of managing the funds, and it often occurred that the local governments did not receive information for a long time about these applications. In the cases of rejection, the decision-makers mentioned the lack of resources as a cause.

As a result of all these factors, two thirds of those local governments involved in receiving support did not have, in due time, the necessary financial resources. Due to this, the waste water utility investments started with delay, the development projects had to be broken down into phases and it was impossible to carry out implementation in a complex way. The local governments were not able to use properly the special purpose support appropriations. As a result, central budget resources were tied up unreasonably, and the efficiency of the operation system of ear-marked and special purpose support was impaired. Because of this ‘practice’ there has been produced 22-23 billion HUF residue for several years.

As many as 25 local governments did not observe the requirements related to public purchasing: they started the public purchasing procedures before they had the financial resources or cover necessary to perform the contract or some guarantee that by the time of delivery they would obtain the financial resources. There were also irregularities at the selection of the contractors of the investments, and ones that breached some other regulations of the Law on Public Procurement.

Contradictions emerged with the joint investments as to the accounting of the reclaimed VAT. The regulations of the Cct. and the relevant practice of the Tax and Financial Con

trol Office are not brought in line with each other in the case of the managing agents and the joint local governments.

To obtain the necessary resources of their own, the local governments resorted to irregular arrangements, too, in the course of which they became financially dependent on the contractors. The local governments made contracts of road use, property lease, asset use, and service provision with the contractors, through which they had disproportionately high income. In turn, the contractors had compensation in their fee, so other state support stood for 70-80% of the necessary local government resources. This also highlighted that the specific costs of the waste water disposal and cleaning investments implemented from central support are rather high. The total costs planned with the consideration of these – around which, in the framework of the public purchase procedure, the contractor quotations dispersed – made it possible for the contractors to cover the fees of road use, property lease, asset use, and other service provision charged by the local government from their business flat rate. This practice is expected to be terminated from 2001 since, upon the recommendations of the SAO, the amendment of the Cct. made restrictions in this regard.

On the basis of the national data, the residue of the ear-marked and special purpose support was 34, 462 million HUF at the end of 2000, 42% of the total appropriation for 2000. Within the high amount and rate of residue, the volume of special purpose support residue was dominant since this amount was 27, 045 million HUF, 55% of the total appropriation available for 2000.

The aggregate figures of the audited local governments show rates that are similar to those at the national level. The recorded total residue was 14, 564 million HUF, 52% of the whole appropriation, 47% of the ear-marked support, and 53% of the special purpose support, within this, on 31 December, 2000. 99% of the total residue was produced in the field of waste water disposal and cleaning. In 66 cases (52%) of the audited 127 waste water disposal and cleaning investment projects occurred high amount residues, where, in effect, nothing was used of the appropriation, mainly because the local governments' own resources were missing. Among the audited local governments we have found 34 investments which the contractors did not start at all in 2000.

In the field of waste water disposal and cleaning, the technical and mainly the financial preparation of the projects is not sufficient; while the lack of the local governments' own resources has been a recurring problem for years now. In terms of waste water cleaning and canalisation, we have been permanently lagging behind the environmental protection requirements of the European Union. The SAO has been pointing out this unfavourable tendency for several years.

The present audit has found 18 irregularities with the audited 149 investments related to the obligation to renounce the appropriation and to the use of support. The support used unlawfully or obliged to renounce was not more than 394, 812 HUF of the central appropriation, 1.4% of the 2000 year support appropriation for the audited investments. On the basis of the audit finding, a total of 6, 500 HUF unlawfully claimed ear-marked support, and 12, 052 HUF unlawfully claimed special purpose support repayment, as well as 11, 255 HUF ear-marked and 365, 005 HUF special purpose support appropriation renouncement obligation have been revealed.

We have made our recommendations, on the basis of our audit findings, as to the repayment and decrease of the central support appropriation because of unlawful VAT reclaim and investment appropriation residues.

Given the volume of the unlawful claim in the previous years, some improvement can be seen in terms of lawfulness, which, in part, is attributable to the fact that upon the SAO recommendations, too, the legal regulations have screened those activities that made unlawful claim possible in the previous years.