

0229 Summary of the audit made on the utilisation of the labelled and targeted subsidies provided in 2001 to the investments and reconstructions executed by local governments

In the year 2001 too, the system of labelled and targeted subsidies was the most important element in the development activity of local governments, since this form of subsidy ensured a determinant portion (50-80%) of their development resources. Once more in 2001, the development objectives were determined by the development preferences of the central subsidy system.

Among the targeted subsidies, sewage disposal and treatment with financial priority within the water management sector were determinant indicating the endeavour, in line with the requirements of accession to the EU, to close the gaps existing in the field of public works, and to purify an increasing portion of the disposed sewage. In comparison to the previous year, the ratio of state subsidies increased by 10 to 20 percentage points in this sector. The local government investments aiming to establish sewage treatment plants and sewage networks were supported by the authentic needs of the population, which were further confirmed by the requirements of environmental protection and regional development. In previous years area development projects had priority. In the sewage disposal treatment sector joint investments became more common. In the audited year, 60% of the audited investments in public works related to sewage were realised as joint investments. The association of local governments was stimulated mainly by a higher ratio of subsidies, but the recognition that joint operation is less expensive also played a part.

To ensure the financial resources of their own required by the capital intensive sewage work investments started in previous years continued to raise problems for local governments. At the same time, the increase of subsidy ratios had a favourable influence on the execution of investments and, in parallel, on the reduction of remainders.

In the multi-channel subsidy system the outlook for equal opportunities has deteriorated, as it was difficult for certain local governments to obtain other state funds, while others could ensure a more favourable financial position for themselves by obtaining this form of subsidy. The local governments intended to ensure their lacking own resources basically by obtaining other state subsidies (VICE, KKA/KAC, TERKI, CÉDE, etc.). However, the decision-making mechanism of the applications related to those funds differed from that of the targeted subsidies. It took a long time for the local governments to receive a reaction to their applications submitted to obtain the subsidy.

The lack of harmony among the decision-making systems of the various forms of subsidies meant that local governments applied for six to eight different sorts of state funds and, if the decision was favourable, they were able to obtain no less than 100% of the investment estimate, thus they did not need to provide any of their own resources for implementation.

It often happened with the audited investments that the local governments did not comply with the provisions of the public procurement act: the public procurement process had been started even before they possessed the financial coverage that could ensure contract fulfilment, or before they had the assurance that the financial resources would be available at the time of implementation. As in previous years, irregularities took place during the public procurement process with the selection of the investment contractors.

The fact that the year-end remainder of labelled and targeted subsidies diminished in comparison to that in previous years can be considered a favourable development. Based on national data, in 2001 the total year-end remainder of labelled and targeted subsidies amounted to HUF 34,437 billion representing 33.4% of the appropriation made available in the year 2001. (At the end of the previous year, the ratio of the remainder from central subsidies was higher: it reached 42%.) As in previous years, the remainder of targeted subsidies was determinant within the large sum and considerable measure of remainders, as it amounted to HUF 27,514 million representing 37.5% of the appropriation made available in the year 2001. A determinant proportion, i.e. 87.4% of the total remainder of targeted subsidies continued to originate in the sewage disposal and treatment sector, which meant that in this field an amount of HUF 24,037 million remained unused in 2001.

The total remainder of the labelled and targeted subsidies subjected to the audit amounted to HUF 11,591 million, its proportion was 35.1%, within which the proportion of the remainder of labelled subsidies was 27%, while that of the targeted subsidies was 36.8% at the end of the year 2001. 94% of the total remainder of the targeted subsidies originated in the sewage disposal and treatment sector.

The remainders from central subsidies were due first of all to the locking up of appropriations. The local governments were late in complying with their obligations to forgo the central appropriations provided for by the act on the system of labelled and targeted subsidies, or did not comply with these obligations at all. 75% of the obligations to forgo the appropriations, discovered by the audit, originated in relation to the possibility to deduct the VAT.

In the field of legality, the improvement that had begun in the previous year continued.

The improvement of legality is also in connection with the fact that, paying due regard to the proposals of the SAO, the legal regulation became more clear-cut regarding a number of questions (connecting pipe, resort area, right to deduct the VAT, etc.), which made it easier for the local governments to act in accordance with the law. In the meantime, the investment preparation and investment execution practice of the local governments and their commissioned executing organisations also improved.

It was a general experience in previous years that in order to ensure their own resources, the local governments fell into dependency with the contractor: they made contracts for the use of public place, premises, equipment, etc. As a result of the new regulation introduced in 2001 by paying due regard to earlier SAO proposals this possibility was closed. In connection with the new investments started in 2001, the audit did not discover any such local government practices.

The amount of the central subsidies illegally resorted to and the unlawful tying-up of central subsidy appropriations discovered by our audits, and their proportion to the audited appropriations have significantly decreased from year to year. While in 1996 and 1997 the ratio of illegal utilisation and tying-up of appropriations measured against the amount of the audited subsidies was 20%, the same ratio was a mere 1.4% in 2000.

Regarding the unlawful tying-up of subsidy appropriations, the present audit discovered 11 cases of irregularity with the audited 152 investments. With the local governments, the discovered unlawful tying-up and illegal utilisation of subsidy appropriations came to a total of HUF 79,907 thousand, which represented 0.24% of the subsidy appropriation allocated for audited investments in the year 2001. Based on the audit findings, a repayment obligation for

a total of HUF 4,832 thousand illegally used labelled subsidy and a total of HUF 10,754 thousand targeted subsidy, as well as an obligation to forgo appropriations due to unlawful tying-up of HUF 4,921 thousand labelled and HUF 59,400 thousand targeted appropriations were discovered. According to our proposal, the competent ministers would initiate their enforcement in the act on the execution of the budget of the Republic of Hungary for the year 2001.

Based on the audit findings and related to the central subsidies, we have made our proposals for repayment or for the reduction of appropriations, because of the use of subsidies for not supported objectives, because the VAT originally planned as non-deductible became deductible, because of changes in the technical substance, for the partial use of central subsidies to completed investments and because of other reasons.

The audit experiences show that, as a result of utilising the SAO proposals made to improve the system of labelled and targeted subsidies, legality has also improved, which is demonstrated by a decline in unlawful tying up of appropriations and the illegal use of subsidies, by a reduction taking place in the amount of appropriation remainders, to which the improving work of the local governments has also contributed.

Based on fieldwork experience, the proposals addressed to the local governments directed at creating or amending investment regulations and public procurement by-laws, at consistently following the provisions of the act on public procurements, at entering the operational investments into the accounting records (capitalisation) in accordance with the statutory provisions, and at performing stricter internal audits. The proposals also included the forgoing in time of the unlawfully tied-up central subsidies. In connection with the findings made during the fieldwork, personal calling to account, and prosecution proceedings (due to a suspicion of securing unlawful financial advantages) were initiated in one case.

In addition, due to violating the provisions of the act on public procurements, in one case we have initiated the proceedings of the Arbitration Committee of the Public Procurement Council.