

0233 Summary of the audit made on the operation of the Hungarian Privatisation and State Holding Co. in 2001 and on its activities related to the execution of the state budget

The Government has announced that at the end of the year 2000 the period of mass privatisation came to an end, and the pressure for privatisation proceeds ceased to exist. In the activities of the Hungarian Privatisation and State Holding Co. (ÁPV Rt.) the weight of asset management has grown, and the fulfilment of the obligations resulting from earlier privatisations has represented a steadily increasing burden in its expenditures. In the year 2001, the discharging of special duties based on various government decisions played a significant role in the activities of the Company.

At the end of last year, the assets assigned to the Company amounted to HUF 750,297 million, liabilities existing against the assets assigned to it amounted to HUF 109,085 million, and its own assets amounted to HUF 12,311 million. The operational income of the Company in 2001 was HUF 4,874 million, while its operational expenditures amounted to HUF 4,827 million.

Complying with the obligations specified in legal acts, the State Audit Office has, since 1991, regularly audited the activities of the ÁPV Rt. and its legal predecessors each year. The present audit aimed, among other things, to assess whether the organisational and operational systems of the Company were in line with its tasks; how the assets assigned to the company had changed; how the appropriations, obligations and the undertaking of guarantees specified in the budget act and related to the activities of the ÁPV Rt. were fulfilled; and whether the requirements of regularity and economy were implemented in the management of the company.

Due to the entry into force of the new accounting act and to the amendments made to the privatisation act, in the course of 2001 the assets assigned to the ÁPV Rt. changed both in their composition and their registered value. The changes taking place in the provisions of the accounting act resulted in a reduction of a total of HUF 19,7 billion in the registered value. The amendment made to the privatisation act effected changes in the composition and the value of the assigned assets; for example 19 companies were transferred from stable state assets to the stock of those that could be privatised. The stock of assets managed by the ÁPV Rt. decreased by 4 companies and increased by 1 company.

A further stock of 12 agricultural companies and the Balaton Navigation Co. were transferred to the Hungarian Development Bank Corp. (MFB Rt.) free of charge, the registered value of which has reduced the stock of state assets assigned to the ÁPV Rt. by an amount of HUF 22.8 billion. The transfer of companies to the MFB Rt. implementing the privatisation did not comply with the provisions of the accounting act: it did not take place on the basis of the equity capital value registered with the ÁPV Rt.; instead, it was realised on the basis of the subscribed capital only.

The effected regroupings have reduced the value of assigned assets by a total of HUF 111 billion.

In the case of privatisation of other organisations operating outside the framework of public finance, the management of state assets is not transparent or controllable, since in this case the proceeds would be utilised outside the budgetary framework and without Parliamentary control.

The purpose, size and structure of the privatisation reserve, which could be considered as forming a separated part of the assigned assets, as well as its relationship with the assigned assets, and the composition of the sources of expenditure, have changed in the course of the last two years. The utilisation objectives of the assigned assets and the expenditure titles of the privatisation reserve overlap each other, thus any endeavour to separate reserve utilisation and the expenditures related to the assigned assets has become artificial in the budget act. It is partly due to this fact that the accounting system of ÁPV Rt. is not consistent in respect of the legal titles and that the internal regulation related to this field is not appropriately detailed.

On 31 December 2001, the normative and floating obligations of the ÁPV Rt., including late payment interests, amounted to a total of HUF 120.8 billion, which showed a reduction of HUF 76 billion as compared to the same obligations in the previous year. The reduction originated from the discharge of earlier legal obligations, including, to a significant extent, the settlement of local government claims related to the gas public utility assets, and from paying the arrear purchase price originating from the repurchase of the shares related to preparing the privatisation of the Hungarian Airlines Co. (MALÉV Rt.).

There was no harmony between the appropriations contained in the budget act and the business plans of the ÁPV Rt. The revenues and expenditures of the Company planned for the year 2001, and the appropriations of the budget act showed considerable differences. The act provided for the expenses to be financed from privatisation proceeds to a total of HUF 180,5 billion. The provisions included in the business plan of the Company envisaged coverage to the budgetary appropriations of up to 37 percent on both the income and the expenditure sides. However, the measure of implementation was even lower, at 30 percent.

When the budget act as amended by the act on the final accounts related to the year 2000 was adopted, the ÁPV Rt. was subsequently relieved of its obligations to pay the amounts to the budget that it did not plan or pay. The amendment legalised a replenishment of the privatisation reserve to the amount of HUF 79.1 billion from the budget, as well as the expenditures paid from the reserve.

The total income of the ÁPV Rt. from its assigned assets was HUF 49.5 billion. From sales and asset utilisation an amount of HUF 32.2 billion was derived; of that amount HUF 29.3 billion was the privatisation income, which was 26 percent short of the planned amount. The measure of privatisations showed a falling tendency in the course of the year.

Among the transactions implemented last year, the sale of the CD Hungary Rt. (CD Hungary Corp.) was decisive; it produced 62 percent of the annual privatisation proceeds.

Lacking the corresponding proceeds, the paying of the expenditures connected to the assigned assets, as foreseen in the privatisation act, fell behind the appropriations of the budget act.

In the payment of expenses according to the titles specified in the budget act a measure of dispersion between 0 and 87 percent was discovered. In addition to the lack of resources due to a lack of proceeds, the fact that the final account of the expenditures did not take place according to the titles specified in the budget but rather to the debit of the privatisation reserve

account, against the title 'Expenditures related to actions supporting state policy regarding its assets and the economy and to the elimination of crisis situations' also contributed to this large measure of dispersion. It was on this legal title that the Government ordained the utilisation of the resource replenishments made against the budget. Therefore, at the end of the year, the accounting of the expenditures effected during the year in connection with the legal titles of 'Development projects', 'Business related payments' and 'Reorganisation-oriented payments' was also reclassified accordingly.

The opening balance of privatisation reserve that amounted to HUF 116.6 billion on 1 January 2001 dropped to HUF 51.9 billion by the end of the same year. The main reason for the reduction of the assets in the privatisation reserve is that, based on the relevant legal act, the ÁPV Rt. settled the local government claims related to the gas public utility assets.

In the course of 2001, liquidity problems impeded the settlement of obligations outstanding against the reserve. This is indicated by the low level of expenditures effected for privatisation and in relation to other legal provisions.

Among the titles for payment against the privatisation reserve, the title 'Expenditures related to actions supporting state policy regarding its assets and the economy and to the elimination of crisis situations' is a new and special title introduced in 2001 by the act on final accounts amending the budget act. It was for this title that the Government ordained the accounting of the utilisation of the extra resources provided by the budget act for various investment and development tasks and for subsidies specified during the year by Government Decrees. The 'Expenditures related to actions supporting state policy regarding its assets and the economy and to the elimination of crisis situations' title is a general concept, to which every kind of economic expenditure can be referred. Every government action related to the economy is an economic policy measure, consequently the application of this payment title renders unnecessary every other title, which had so far been used with concrete economic contents and objectives, and opens up, as it were, a new 'subsidiary budget', against which every expenditure could be accounted.

The ÁPV Rt. has used its budgetary allocations for the implementation of various special economic policy measures of the Government. During the year, the privatisation and asset management tasks of ÁPV Rt. were transformed into a general role of economic policy implementation.

The equity capital of the ÁPV Rt. during the year 2001 was managed at a level corresponding to that in the previous year.

Following the modifications related to audit activity and its organisational set-up, the weight and co-ordination of the activities of internal audit have increased. Connected to the system of internal audit, the method applied by the auditor offered support to the managing and control activities of Management and the Supervisory Board.

We have proposed to the Government that, in addition to making use of the findings made during the field work, it should initiate cancelling the 'Expenditures related to actions supporting state policy regarding its assets and the economy and to the elimination of crisis situations' title, a privatisation reserve allocation, which is alien to the privation and asset management activities of the ÁPV Rt. Furthermore, we have proposed that the Minister of Finance, exercising the shareholder's rights, should review the planning and budgeting practices of the Company by laying special attention on the budgetary relations, and that he should

take steps to ensure that the resolution related to the accounting system of the ÁPV Rt. is passed in good time. He should determine and ordain the exact contents of the different expenditure titles. The account numbers in the system of the accounts of the APV Rt. should in their contents, cover the various lines of the budget act. In connection with the discovered shortcomings he should take steps to initiate the necessary callings to account. He should consider whether the provision of the privatisation act prescribing the separation of the assets assigned to the ÁPV Rt. from its own assets can be implemented - in addition to recording the assigned state assets among the liabilities provided for by the act on accounting - by keeping a general ledger, and he should modify the accounting system accordingly.
