1. **Title:** Reinforcement of institutional and administrative capacity
   Financial Control, Monitoring, Audit

2. **Location:** Hungary (Hungarian State Office and Government Control Office)

3. **Objectives**
   Strengthen the financial control, monitoring and audit capacities of the State Audit Office and the Government Control Office as part of the Accession preparations as identified by the Accession Partnership and National Programme for the adoption of the acquis (i.e. strengthening of internal financial control, development of anti-fraud unit and state audit office,...). In co-operation with the European Court of Auditors and DG XX, ensure to the Commission and the Hungarian State that all financial decisions and arrangements involving both European Union and the Hungarian public funds follow EC rules.

4. **Description**
   The State Audit Office is the supreme audit and control institution in Hungary. Its tasks include the control of the budgets of:
   - central and local governments
   - social security funds and
   - all other funds financed by the Hungarian taxpayers.
   It is responsible for the co-ordination of all development efforts related to external audits, and it has also to ensure that Hungarian audit standards comply with European Union requirements. The State Audit Office reports directly to Parliament.

   The Government Control Office has been established in 1994 to control central budgetary organisations. In addition to this function it is controlling the use of international aid funds provided to Hungary. It is responsible for the co-ordination of efforts aimed at the establishment of a financial control system in Hungary, including a proper monitoring system encompassing both the central and local levels, that will conform to the one of the European Union. The Government Control Office reports directly to the Government.

   The project is based on principles outlined in paragraphs I.1.4, I.1.9, II.6.1, and II.10 of the *National Programme on the Adoption of the Acquis*, and on the priorities and intermediate objectives of the *Accession Partnership* (Section 4, paragraphs 4.1 and 4.2.). To safeguard sound financial management and proper use of public funds, including Phare aid and other future Community assistance, and to ensure the availability of financial control and audit functions conforming to requirements of the European Union, the project comprises the:
   - Development of the institutional capacities of the State Audit Office, governmental and ministerial control organisations and units, monitoring committees by training of staff, and reinforcement of cooperation with partner institutions in the European Union
   - Reinforcement of authorities responsible for monitoring the use of Community assistance at the central and local levels by improving their data processing systems
   - Adaptation of the *SEM 2000* system
   - Adoption of European Union audit standards, and applying them after suitable training of state accountants and auditors
   - Development of financial control, monitoring and training programmes aimed at the Regional Policy and Cohesion Funds
   - Reinforcement of overall institutional and administrative capacities including the development of an anti-fraud unit.

   To strengthen the external control and audit capacity of the State Audit Office, and to prepare for adopting
the Financial Regulations of 13 March 1990 applicable to the general budget of the European Communities as well as Council Regulation 729/70 and Commission Regulation 1663/95, a range of twinning co-operations will be established between the State Audit Office of Hungary and suitable sister organisations in European Union Member States. In this context, the following specific measures shall be implemented:

- Study of European Union best audit practice
- Development of auditing methodology
- Training of State Audit Office’s staff and of staff of those central government bodies’ that are subject of State Audit Office’s audits
- Information technology enhancements enabling direct access to relevant data sources.

For the purpose of developing the monitoring system in accordance with Government Decree 1009/98 (I.30.) of Hungary, the communication infrastructure must be advanced. Establishing new high-quality network services, training and Technical Assistance will help achieving this.

5. Institutional Framework

The institutions involved in the implementation of this project are the Hungarian State Audit Office (HSAO) and the Government Control Office (GCO). The content of the project conforms to the institution building plans of both institutions. It reflects the division of responsibilities within the government’s co-ordination structure. Both institutions shall closely co-operate and mutually support each other concerning the implementation of the project. They will co-ordinate their activity on a daily basis.

6. Budget: (in MECU)

<table>
<thead>
<tr>
<th>Budget:</th>
<th>Investment</th>
<th>Institution building</th>
<th>PHARE (= I+IB)</th>
<th>Recipient</th>
<th>IFI*</th>
<th>Total</th>
</tr>
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<tbody>
<tr>
<td>ECU</td>
<td>DIS HQ</td>
<td>DIS HQ</td>
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<tr>
<td>External Audit</td>
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<td>500.000</td>
<td>200.000</td>
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<td>1.500.000</td>
</tr>
<tr>
<td>Monitoring</td>
<td>1,000.000</td>
<td>700.000</td>
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<td>2.270.000</td>
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<td>400.000</td>
<td>3,000.000</td>
<td>770.000</td>
<td>3,770.000</td>
</tr>
</tbody>
</table>

* In cases of co-financing only

7. Implementation arrangements

The Government Control Office - in co-operation with the State Audit Office - shall be responsible for project identification, specification, and contract implementation and project monitoring. The administration of tenders and contracts shall be the responsibility of the CFCU.

8. Implementation schedule

<table>
<thead>
<tr>
<th>Component</th>
<th>Start of Tendering</th>
<th>Start of Project Activity</th>
<th>Completion</th>
</tr>
</thead>
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<tr>
<td>External audit</td>
<td>Date signature of FM</td>
<td>Feb 1999</td>
<td>April 2000</td>
</tr>
<tr>
<td>Monitoring</td>
<td>Date signature of FM</td>
<td>Feb 1999</td>
<td>April 2000</td>
</tr>
</tbody>
</table>

9. Equal opportunities

All relevant project components will provide equal opportunities for men and women.

10. Environment: Not applicable

11. Rates of return

Not applicable
12. Investment Criteria

Not applicable.

13. Conditionality and sequencing

Co-ordination with past and ongoing actions in the fields covered by this project, financed in the framework of previous Phare programmes or by other financial sources, must be ensured.
Annex 5

HU 98.03.02

Relation of project with previous Phare activities and with ongoing project financed from other sources

The Government Control Office and the State Audit office have previously received Phare assistance in the framework of Programme 9403-02 for the development of their monitoring, adit and control functions. The programme, due to be completed by the end of this year had several subcomponents.

Part of the funds provided was used for the procurement of IT equipment in both offices.

Further sub-projects support
- familiarisation with monitoring and control methodologies (collection of material)
- studying relevant EU requirements and practical experience, including on the job training in selected institutions.
- the development of monitoring and control mechanisms for EU-projects in Hungary
- the preparation of detailed guidelines and manuals for the monitoring institutions
- training for the employees of monitoring and control institutions
- special postgraduate training for financial controllers, including the preparation of relevant textbooks, the development of examination standards,
- and the establishment of an Audit and Control Advisory Commission to the Minister of Finance.

Project HU 9403-02 contributed in a significant manner to enhancing the audit, monitoring and control functions in Hungary. Its results are already finding practical application, for example in the establishment of a two level monitoring structure for Phare programmes in Hungary, co-ordinated by the Government Control Office. Another significant achievement is the conclusion of a co-operation agreement between DG XX and the Government Control Office, which enables the GCO to perform external audits on behalf of the European Commission.

These practical achievements of the HU 9403 programmes serve as a good starting point for further methodological development and capacity building in the framework of HU 98.01.02, aimed at preparing for the practical operation of different Community support schemes in Hungary before and after accession.
## LOGFRAME PLANNING MATRIX FOR PROJECT

<table>
<thead>
<tr>
<th>Programme Number</th>
<th>HU98.03.02</th>
<th>Programme Title</th>
<th>Development of Internal Control and Audit Institutions in Hungary</th>
<th>Total Budget</th>
<th>3.0 MECU</th>
</tr>
</thead>
</table>

### Immediate Objectives:
- Strengthen the financial control, monitoring and audit capacities of the State Audit Office and the Government Control Office as part of Hungary's Accession preparations.
- In co-operation with the European Court of Auditors and DGXX, enable the competent Hungarian authorities to ensure that all financial decisions and arrangements involving both European Union and the Hungarian public funds will follow European Union rules.
- IT capacity and network between the Central and Local Monitoring Committees, relevant software.

### Indicators of Achievement:
- Number of successfully completed control, monitoring or audit in line or exceeding European Union averages.
- All financial decisions and arrangements involving both European Union and Hungarian public funds consistent with applicable European Union rules.

### Sources of Information:
- Technical reports of the State Audit Office, the Government Control Office and the Secretariats of the Central/Local Monitoring Committees.
- Audits and evaluations of programmes involving European Union and Hungarian public funds.

### Assumptions and Risks:
- Performance reports of the State Audit Office, the Government Control Office and the Secretariats of the Central/Local Monitoring Committees.
- Trained professionals remain with the Hungarian public audit and control institutions. All required operational funds available if and when required.

### Results of Programme:
- Professional staff of the State Audit Office, Government Control Office and the Secretariats of the Central/Local Monitoring Committees trained in European methods and practices.
- Data processing capacity of the State Audit Office, Government Control Office and the Secretariats of the Central/Local Monitoring Committees improved.
- IT network for Monitoring Committees, relevant software.

### Indicators of Achievement:
- Professional staff demonstrably conversant with relevant European Union financial control, monitoring and audit methods and practices.
- Data processing capacity reaches the level of comparable public sector audit organisations in the European Union.
- IT network and relevant software.

### Sources of Information:
- Technical reports of the State Audit Office, the Government Control Office and the Secretariats of the Central/Local Monitoring Committees.
- Trained professionals remain with the Hungarian public audit and control institutions. All required operational funds available if and when required.

### Outputs of projects:
- Twinning arrangements set up and functioning.
- Training programmes for professionals of the State Audit Office and Government Control Office designed and operational.
- Independent short term expert missions, in order to help the work of the Monitoring Secretariats.
- Audit guidebooks and manuals in line with European Union requirements provided.
- Data processing networks installed with sufficient numbers of computerised workplaces in the State Audit Office, Government Control Office, and the Secretariats of the Central/Local Monitoring Committees; other relevant office equipment purchased and installed.
- Training of operators completed.
- IT capacity and network between the Central and Local Monitoring Committees, relevant software.

### Indicators of Achievement:
- All relevant training projects and expert missions carried out on time.
- All deliverables provided and installed on time.

### Sources of Information:
- CFCU reports.
- High-quality training needs analysis ready
- High-quality systems specifications for data processing project ready
- All required local and Phare funds available if and when required.
**Annex 2**

HU98.03.02 - Detailed cost breakdown

<table>
<thead>
<tr>
<th>Budget:</th>
<th>Investment</th>
<th>Institution building</th>
<th>PHARE (= I+IB)</th>
<th>Recipient</th>
<th>IFI</th>
<th>Total</th>
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<tbody>
<tr>
<td>ECU</td>
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<tr>
<td>External Audit</td>
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<td>Monitoring</td>
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## Annex 3

**HU98.03.02 - Detailed implementation time chart**

<table>
<thead>
<tr>
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<td>Collection of material</td>
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<td>Methodological dev</td>
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<td>Training programme</td>
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<td>Twinning cooperation</td>
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<td><strong>Monitoring</strong></td>
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<td>Adoption EC standards</td>
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<tr>
<td>Dev FC, monit, train</td>
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<td>Reinforct Inst capacity</td>
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<tr>
<td>Reinforct Monitor authority</td>
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### HU98.03.02 - Cumulative contracting & disbursement schedule (MECU)

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</table>

N.B.:
1. All contracting should normally be completed within 6-12 months and **must** be completed within 24 months of signature of the FM.
2. All disbursements **must** be completed within 36 months of signature of the FM.