DIRECTORATE GENERAL FOR AUDIT OF EUROPEAN FUNDS

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REVISED AUDIT STRATEGY

FOR THE HUNGARIAN RECOVERY AND RESILIENCE PLAN

with reference to Regulation (EU) No 241/2021

in accordance with Article 13(1) a) of Government Decree No. 373/2022

Version 6

Approved by:

dr. Dencső Balázs

Digitálisan aláírta: dr. Dencső Balázs
Dátum: 2026.08.12 14:27:20 +02'00'

Mr. Balázs Dencső, dr.
Director General
Directorate General
for Audit of European Funds

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I. INTRODUCTION

Legal framework

The relevant legal framework governing the audit of the implementation of the national Recovery and Resilience Plan (RRP) is as follows:

Community legislation:

- 2024/2509/EU Regulation of the European Parliament and of the Council (Financial Regulation)
- 2021/241/EU regulation of the European Parliament and of the Council establishing the Recovery and Resilience Facility (hereinafter: Regulation)
- Commission Delegated Regulation (EU) 2021/2105 supplementing Regulation (EU) 2021/241 of the European Parliament and of the Council establishing the Recovery and Resilience Facility by defining a methodology for reporting social expenditure
- Commission Delegated Regulation (EU) 2021/2106 on supplementing Regulation (EU) 2021/241 of the European Parliament and of the Council establishing the Recovery and Resilience Facility by setting out the common indicators and the detailed elements of the recovery and resilience scoreboard

National legislation:

- 1037/2021. (II. 5.) Government Decision on the action plan for economic regeneration
- 373/2022. (IX. 30.) Government Decree on the basic rules and responsible institutions for the implementation of the Hungarian Recovery and Resilience Plan
- Act XLIV of 2022 on the Directorate General for Audit of European Funds and the amendment of certain acts adopted on the request of the European Commission in the interest of the successful closure of the conditionality procedure

Institutional and professional background of the Audit Authority

The Directorate General for Audit of European Funds (hereinafter: DGAEF, Directorate) has been nominated in 2022 in accordance with Section 13(3) of Government Decree No 373/2022. (IX. 30.) as the audit authority (hereinafter: AA) responsible for the audit tasks related to the implementation of the Recovery and Resilience Plan of Hungary. The provisions of Government Decree 373/2022 (IX. 30.) and the audit-related tasks contained therein cover the entire RRP, that is, they are equally relevant for non-refundable grants and financial instruments. Pursuant to § 8 of Act XLIV of 2022, the Audit Authority's activities include the examination of the internal control systems designed to implement the RRF-sourced financial instrument.

DGAEF is an autonomous public administrative body. The employees of DGAEF are public officials.

Pursuant to Act XLIV of 2022 – effective as of 1 January 2023 in respect of the legal status of DGAEF – and previously Gov. Decree No. 210/2010. (VI. 30.), in addition to acting as the audit authority for the RRF, DGAEF had and has wide ranging responsibilities as the audit authority in Hungary for programmes financed from European Union funds, and has fulfilled this responsibility for several programming periods and continues to do so in the forthcoming

years. DGAEF is also responsible for various audit tasks related to international cross-border cooperation programmes, support from home affairs funds, the Swiss Contribution, the EU Solidarity Fund, etc.

Consequently, the audit experience of DGAEF covers three programming periods and diverse implementation and control requirements. The AA's profile covers audits in the fields related to the different components under the national RRP (such as transport, green transition and healthcare sector). Accordingly, it has the necessary experts in the identified areas (e.g. transport, energy and water management engineers, IT experts) and has experience in auditing projects on the spot. As a general rule DGAEF does not involve other bodies in its audit activity.

The AA has also gained experience in testing of milestones and targets in the framework of audits on operations in other EU-funded programmes, as well as on the reliability of data on performance indicators through thematic audits – including one joint audit mission with the European Commission. DGAEF has experience with the audit of retrospective projects as well.[1]

Act XLIV of 2022 provides the detailed rules on the legal status, organization, tasks and procedures of the Directorate.

DGAEF performs its activities in line with the requirements in EU and national legislation, and on the basis of audit manuals approved by the Head of DGAEF and prepared having regard to internationally accepted audit standards and best practices.

Independence of the Audit Authority

Pursuant to Act XLIV of 2022 DGAEF is an autonomous public administrative body. The organisational, functional and professional independence of the staff of the Directorate General – including the Director General and the Deputy Director General – is ensured, they perform their duties completely independently and are bound only by the legal regulations. The staff of DGAEF cannot be instructed by any person or body, no guidance may be requested from another person or body for the performance of duties, and the staff is obliged to perform its tasks free from influence by any other institution, body, political party, company, association, legal or natural person.

A clear separation of functions between the AA and other members of the internal control system (ICS) and final recipients is ensured. While performing its tasks, DGAEF is independent of the national authority as coordinating body[2], as well as the implementing bodies and final recipients.

In respect of its audit activity, it has functional independence regarding in particular the drawing-up of audit strategies and annual audit plans; preparation and implementation of audit programmes; selection of audit methods; establishment of findings, conclusions and recommendations; identification of irregularities detected in the course of audits; preparation of audit reports and reporting.

[1] as needed in view of the provisions of Article 17(2) of Regulation

[2] Based on the implementing government decree, the body fulfilling the coordinating body function in Hungary is the National Authority (NA).

Both the Director General and his/her deputy are required to sign a declaration of non-conflict of interest, and shall announce a change affecting their independence within 15 days. These positions may only be filled by persons who fulfil the requirements for non-conflict of interest laid down in Art. 28 of Act XLIV of 2022. The auditors of DGAEF are required to make declarations on non-conflict of interest upon entry in the organisation as well as at the start and end of each audit mission they take part in. All staff members are also required to regularly submit asset declarations.

Audit strategy

The overall objective of the audit strategy is to ensure the complete and effective fulfilment of the AA's obligations regarding RRF and, thus, to provide assurance on the regular and transparent use of EU financial resources, as well as on the compliance of institutions with relevant requirements and on the effective functioning of the internal control systems. Through the application of the audit strategy, the AA maximizes the overall impact of its audits and increases their effectiveness by ensuring the optimal use of resources.

The Audit Authority prepares the audit strategy based on which it executes audit work on the implementation of measures in the national RRP and the functioning of the system taking into account the different risks.

The AA shall review annually the audit strategy until 2028 in the light of changes in the internal control system and in relevant legislation and internal regulations. The results of audit activities and remedial actions implemented by audited organisations on the basis of audit recommendations shall also be taken into account. As part of the review of the audit strategy, DGAEF will prepare the annual audit plan for the next period of audits based on the results of the risk analysis and professional judgement, taking into account the relevant requirements.

II. METHODOLOGY

Overview of the audit methodology

The audit activity is regulated by the RRF Audit Manual (issued with Director General's Ruling No. 9/2024), elaborated in compliance with the relevant EU and national legal regulations and internationally accepted audit standards. When elaborating the Audit Manual, the guidelines issued by the European Commission and the methodologies elaborated for the audits as well as the AA's internally developed methodologies have been completely integrated. The AA's RRF Audit Manual regulates each task to be carried out by DGAEF; i.e. it defines the methodologies, the revision of the audit strategy, planning, sampling and performance of different types of audit tasks (i.e. system audit, substantive testing of milestones and targets, thematic audit). Deadlines for the performance of all audit procedures and processes, as well as the procedures concerning the required internal checks and supervision, reconciliation, the follow-up of findings, and the required reporting and communication activities are also covered by the Audit Manual. DGAEF takes into account the RRF-specific audit requirements during the elaboration of the methodology and as well as the guidance, methods, templates and checklists prepared by the audit unit of Directorate General for Economic and Financial Affairs[3] of the European Commission, in order to ensure harmonisation of the audit approach.

Based on point 5.1.39 of the RRP DGAEF shall apply the IT system developed to support fraud and corruption risk analysis, i.e. the **Arachne+ risk assessment tool**. The use of the results yielded by the Arachne+ tool is incorporated into the audit procedures, and while checking milestones and targets auditors have to check with respect to the selected projects what levels of risk are indicated by the system connected to the project/final recipient/contract/contractor concerned. In case of a high risk rating, it has to be indicated in the audit checklist and further examination is required tailored to the given type of risk factor to determine the reason for the high risk rating, and the underlying factors, and whether further detailed examination is needed. Within RRF, fraud, corruption, conflict of interest and double funding risks, linked primarily to the "Reputational & Fraud Alerts" and „Concentration" categories, are treated as special focus areas. For this purpose, the AA takes into account the recommendations of the guidance note prepared by DG ECFIN on the use of Arachne, and the main risks listed under Section III.

DGAEF also checks the availability of relevant **conflict of interest** (COI) declarations when auditing projects, verify the activity of Directorate of Internal Audit and Integrity (DIAI) and the implementation of its control plan on COI declarations and COI-related notifications. Furthermore, DGAEF uses other national databases (OPTEN, company register) too to screen projects, final recipients, contracts, contractors for the above risks and to examine whether the audited entities are independent of each other.

The AA audits the **avoidance of double funding** in the framework of its substantive testing and the audit of the separate sample: the audit's scope includes checking the demarcation between eligible activities in the call for proposals and in the operational programmes, the final recipient's audited project and its other projects, the endorsement of the invoices (project number appearing on the invoice), furthermore EUPR does not allow the repetition of the same invoice number. The AA performs such cross-checks itself using the available information

[3] Ref. Ares(2022)656129 – 28/01/2022, Enquiry Planning Memorandum, system audit on Measures Implemented to Protect the Financial Interest of the Union
Ref. Ares(2022)573477 - 25/01/2022, Enquiry Planning Memorandum, Audits of Milestones and Targets

systems. In the framework of the system audit, the first level assessment and control procedures related to double funding are also examined to verify the effectiveness of first level controls.

DGAEF has an overview of programme implementation and access to several monitoring and information systems (EUPR, EMIR, Interreg+, BAMIR), other databases (OPTEN, company register) in addition to Arachne+, which is essential for enabling effective checks on risks related to double funding, conflicts of interest as well as possible fraud or corruption, in line with the requirements set out in the RRP and relevant legal regulations. The Audit Authority also has access to the IT sales (e.g. EUKIR2) and data registration (Fontium4) systems of the Hungarian Development Bank as Implementing Body, and is able to use their data and the uploaded documentation when conducting its audits.

III. PLANNING AND IMPLEMENTATION

The table of implemented audits is included in Annex I, while the table of the indicative audit plan in Annex II of the Strategy.

Audits of the internal control system

2023

The AA performed an **initial set-up audit** on the basis of the experience gained with the former compliance and designation audits, focusing on the establishment of the institutional system, the planned procedures, IT systems and human capacities. The specific risks concerning sound financial management and fraud prevention can be managed through the methodology already prepared and applied in practice. The audit also focused on procedures and control points related to conflict of interest and double funding. The set-up of the repository system was audited separately (see below).

DGAEF prepared a specialised audit methodology and checklist for the set-up system audit to assess the establishment of the system and fulfilment of all key requirements (KR1, KR2, KR3, KR4 and KR6). The scope of the audit covered the internal processes and rules of procedures related to selection, evaluation, information, communication and publicity, management verification, irregularity and recoveries, audit trail, IT system, management declaration and audit summary, payment requests and data management.

Having regard to the fact that DGAEF checked whether all applicable rules are observed during the implementation of measures, and also that one of the objectives of the set-up audit is the prior detection of any possible systemic error or deficiency, the scope of the audit was wider in certain places than what is strictly required by the key requirements developed for the RRF. Specific questions were developed for some aspects that are key to the regularity of implementation (e.g. assessment of applications, system of controls applied to public procurements), in order to provide reasonable assurance on the adequacy of the design of the internal control system.

During the assessment of the system, DGAEF also took into account the results of its previous validation tasks on the remedial measures included in the milestones which ensure efficient functioning of the internal control system for the RRF (i.e. the application of the Arachne+ tool, conflict of interest procedures and anti-fraud and corruption strategy).

The **assessment of the repository system** used for the implementation of the RRP, was carried out as a separate system audit in order to enable the AA to issue a final audit report confirming the functionalities of the repository system and that the system is fully functional and is in operation, in line with the requirement of Milestone 83, under reform no. C8.R24 of the CID. The primary scope was to assess whether the set-up of the repository system is in line with the legal regulations and other external requirements, and whether its functions and processes ensure the monitoring of milestones and targets and the collection and storage of data required by Article 22(2)(d)(i) to (iii) of the RRF Regulation.
As an additional scope, DGAEF included the assessment of the procedures of the internal control system and testing related to the collection, monitoring and aggregation of data on

milestones and targets, and other required data, such as common indicators and data on contribution to climate and digital targets.

2024

The new organisational and operational rules adopted for the managing authorities as implementing bodies and the national authority, and the resulting changes were assessed in the framework of a thematic system audit in April 2024 as a first step. After the next phase of the **reorganisation**, DGAEF's second system audit was launched in September. In view of the institutional restructuring, the objective of the audit was the examination of the appropriate regulation of tasks, the evaluation of the organizational and operational rules of the National Development Centre that entered into force on August 1, 2024 and the resulting changes from the perspective of the appropriate set up of the internal control system established for the implementation of the RRF.

In accordance with the Audit Manual for the implementation of audit tasks concerning the Recovery and Resilience Facility, the Audit Authority also took a separate sample of projects financed by the RRF. In order to protect the financial interests of the Union, the Audit Authority examined the compliance with the relevant EU and national rules, the avoidance of fraud, corruption, conflicts of interest and double funding in the framework of the audit carried out on the separate sample. In 2024 DGAEF performed a **hybrid audit** of two projects in which the audit aspects of system audit and project-level audit were combined. The tested projects were selected in such a way that the audit could evaluate the implementation of relevant procedural acts such as the first level control of payment claims, progress reports, public procurement procedures, state aid rules and the implementation of on-the-spot checks. As a result of this the audit could obtain reliable information on the functioning of the internal control system and the fulfilment of elements of key requirement 4.

2025

The Audit Authority conducted a thematic system audit for the purpose of evaluating the system established for **financial instruments**, introduced as part of the RePowerEU component of the RRP. The objective of the thematic audit was to evaluate whether the set-up of the internal control system of the financial instruments complied with the legislation, internal and external regulations, and whether the elements and processes that were the subject of the thematic audit ensured the legal, regular and appropriate use of the grants. The audit was carried out on the basis on the guidance CPRE_23-0011-01 "Audit methodology for the audit of financial instruments" specified in accordance with the provisions of the CID, the RRP and the Government Decree.

2026

Approaching the end of the implementation period, to select the areas of focus for the next system audit, the AA analysed the coverage of key requirements by the system audits of the ICS in previous years. The assessment concluded that KRs 1 and 6 are sufficiently covered – provided that the follow-up activity is conducted. In addition, KR6 is also covered by the thematic audit of the RS (for more details, see the section below on ***System audits with a special thematic focus***), while the functioning of the ICS in respect of KR3 cannot yet be audited in the absence of MDs/ASs submitted to the Commission. Accordingly, the AA plans to carry out an audit with focus on the implementation of **KRs 2 and 4**. Special emphasis is put on the

examination of whether implementing bodies function in compliance with regulations. For the assessment, the audit selects test items, which also makes it possible to assess some of the criteria concerning the audit trail (in KR6).

2027

Milestone 84 on the audit strategy (under measure C8.R24 in the CID) explicitly requires that DGAEF carries out an audit covering a sufficiently high degree of the ex post controls performed by the ICS in accordance with milestone 75 (h) under measure C8.R24. The selection of ex post controls is risk based and the AA examines whether those controls effectively address fraud, corruption, conflict of interest and double funding. This audit is scheduled to be conducted in 2027 when programme implementation gets to a stage where the process can already be tested.

System audits on milestones and targets

In accordance with the general audit approach of the AA, audit of the internal control system shall be planned using risk assessment. Accordingly, the components of the RRP to be audited in the framework of the system audit shall be determined based on the results of the risk assessment procedure. DGAEF developed a risk assessment methodology for the planning of system audits, which is an annex of the RRF Audit Manual. The risk assessment procedure shall be carried out in line with the methodology, before the launch of the system audits on milestones and targets.

According to the risk assessment methodology the following *inherent risk factors* are relevant for the selection of components to be audited:

- amount of granted assistance and number of contracted projects in a given component – on the basis of EUPR and data to be submitted by the NA,
- complexity of the organisational structure and rules (number and type of IBs) – on the basis of the RRP and the results of the initial set-up system audit,
- number, type and complexity of measures (type and number of final recipients, reforms/investments) – on the basis of CID and data request,
- number of milestones and targets concerning the component – on the basis of RRP and CID,
- component funding from other sources – on the basis of RRP.

The following *control risk factors* are taken into consideration during scoring:

- failure in the implementation of milestones and targets or large differences in the values reported from one period to the next one – on the basis of CID, EUPR, the last payment request or implementation report prepared by the NA,
- changes in the procedures or organisations – on the basis of the reports of the organisations of the internal control system/audit summary,
- audit results – on the basis of the opinion/references in ECA, EC audits related to the RRP or OLAF investigations, if relevant. Or observations made by the EC linked to the given component in the framework of the reconciliation of the submitted payment claim, if relevant – on the basis of data request from NA,
- results of the substantive testing and audit on the separate sample.

The risk assessment results will be summarised in the following table:

Component	Inherent risk factors						Total Scoring for inherent risk	Control risk factors				Total scoring for control risk	Total Risk Score	Order
	amount of assistance	number of projects	complexity of organisational structure and rules	number, type and complexity of measures	number of milestones and targets concerning the component	component funding from other sources		failure in the implementation of milestones and targets	large differences in the values reported from one period to the next one	change in procedures or organisation	previous audit results			

The final score attributed to each component is determined through the weighted aggregation of the risk scores defined in the risk assessment methodology. Following the scoring of the different factors per component, each component is classified as low risk, medium risk or high risk. As a general rule system audits shall be envisaged for the three components with the highest total risk score. Beside this the AA also takes into account professional judgement when elaborating the annual audit plan.

When carrying out the risk analysis task for financial instruments, it may be justified to consider the following risk factors: the amount of support for a given investment/reform and the number of products/transactions, the method of implementation of the scheme (indirect or direct), the type of scheme (combined or loan), delays compared to the planned schedule of placements, changes in the institutional system (e.g. a newly involved financial intermediary) and in the regulations. In addition, the Audit Authority conducts a separate thematic audit for the purpose of evaluating the system established for financial instruments, the results of which are taken into account when forming an opinion on the internal control system. Based on the experiences of the thematic audit, the AA reviews and, if necessary, supplements the range of risk factors to be used during the risk analysis.

The *objective* of the audits shall be to obtain reasonable assurance that the repository system ensures complete, accurate and reliable data for the milestones and targets of the selected components defined in the national RRP; and that effective controls are implemented for collecting, storing, verifying, aggregating and reporting the related data. The specific objective of the system audit is to assess the quality, integrity and ability of the underlying data management and IT systems to store, collect, aggregate and report on these milestones and targets. Furthermore, the scope of system audits covers controls applied by the Coordinating Body and the implementing bodies. System audits thus cover Key Requirements 4[4] and 6[5] of the internal control system as well.

[4] Appropriate measures, including procedures for checking the fulfilment of milestones and targets and compliance with horizontal principles of sound financial management

[5] Effective system to ensure that all information and documents necessary for audit trail purposes are held

The data quality of milestones and targets is an essential element in ensuring the legality and regularity of the RRF payments. In accordance with the method elaborated by the Commission, the assessment of the data management system will be based on the following functional areas:

1. Structures, functions and capabilities of the authority(ies) entrusted with the implementation of the RRP
2. Definition of milestones and targets and reporting guidelines to the lower levels of implementation
3. Data collection and reporting forms and tools
4. Data management processes
5. Aggregation of data at national level (link between national reporting system and lower implementing levels).

Furthermore, system audit also includes the check of whether the changes and functioning of the internal control system are in line with relevant legislation and internal regulations, and whether the recommendations made in relation to previous audits have been appropriately implemented.

System audit implemented based on risk assessment and with the required frequency shall examine the functioning of the system set up for the implementation of the RRF.

Audit work shall generally be carried out at the level of the authorities involved in the RRF internal control system (e.g. National Authority, implementing bodies). If the information necessary for the audit work is not available at that level, the audit can be carried out at final recipient level. Audits are performed using an audit programme and checklists, applying desk-based check as well as on-the-spot interviews. The actual functioning of the system is also assessed by *walkthrough testing* of selected items. The test items shall be selected based on the progress of the component and the AA's professional practice, in line with the principles of proportionality and representativeness. During the testing the AA examines whether the procedures were carried out in accordance with the internal regulations, the audited organisations applied the required controls in relation to the test items, the selected milestones and targets were submitted, verified and reported appropriately, the performed work is documented and underpinned.

The purpose of the system audit is to provide reasonable assurance regarding the efficient and effective functioning of the internal control system, including first level controls. The audit assesses the functioning of the system and defines the level of assurance obtained from the systems. On that basis it determines the necessary extent and the minimum sample size for substantive testing. The classification of the system is established taking into account the following factors:

1. examination of the functioning of selected components from regularity aspects, qualification based on test items;
2. assessment of changes in the system and the relating regulations in the audited period;
3. follow-up of previous audit findings;
4. other relevant information available to the AA,
5. mitigating factors and compensatory controls,
6. professional judgement.

System audits with a special thematic focus

Beside this the AA also carries out **system audits with a special thematic focus** in order to ensure protection of the financial interests of the Union. Thematic audits assess inter alia whether the audited internal control system ensures that the funds are managed in accordance with all applicable rules and that the systems are able to prevent, detect, correct and investigate cases of fraud, corruption, conflict of interest, and to avoid double funding. In the framework of thematic audits, the AA has the possibility to also audit other topics linked to implementation that it considers to be risky based on its internal risk assessment or Arachne+ results (e.g. public procurements, state aid). Specific checklists are developed and tailor-made to meet the particular focus area of each audit.

2023

DGAEF launched a thematic audit to check how the institutional system uses **Arachne** in line with its legal obligations under Gov. Decree No. 373/2022. (IX. 30.) and RRP: the AA assessed the availability of data and due transmission in line with the requirements, as well as the control methodologies and practices applied within the grant management procedures including the use of the ex ante module.

2024

The **Arachne** audit extended into 2024, to include the testing of the correction of previously identified errors and deficiencies, thereby assessing whether the results yielded by the Arachne tool are used adequately in all relevant procedures.

DGAEF also performed the **verification of DIAI's activity** related to control of conflict of interest, handling of complaints and legal remedies in line with the prescriptions of Gov. Decree No. 373/2022. (IX. 30.). The AA assessed the appropriateness of the internal procedures and reperformed the sample of the examinations to form an opinion on the reliability of DIAI's work. As part of the audit the AA also evaluated the appropriate separation of functions (key requirement 1).

2026

Following the revision of the RRP in mid-2026, the AA is performing 9 thematic audits to meet all requirements by the end of the implementation period of the RRP.

The amended CID requires that the AA issues an audit opinion on the **functioning of the repository system** for monitoring the implementation of the recovery and resilience plan (milestone 82 under measure C8.R24). Special focus is laid on the latest developments which have been made necessary by the amendment of the RRP, and which concern inter alia the management of rollover projects[6] in the IT system. For this purpose, the AA will assess the functioning of the RS, with special focus on the system's capability to collect, store, verify and aggregate data and provide access to documents required for the audit trail (including data required by Article 22(2)(d)(i) to (iii) of the RRF Regulation). It will also be examined whether

[6] As a result of the CID amendment, some projects that had been previously financed from ESIF or national resources, were transitioned to be funded from RRF. Given the risk implied by the differing control points and regulatory framework, audits pay special attention to such projects. For more details, see the description of the risk assessment method under Section Substantive testing of milestones and targets of the Strategy.

the RS provides for the monitoring of the achievement of milestones and targets including the latest developments. The audit scope also includes the verification whether the repository system provides appropriate access to authorised national and Union audit and control bodies. Thus, the audit also covers a significant part of aspects laid down in the methodology developed for the system audit of milestones and targets (see above for more details).

A further thematic audit shall be carried out to verify the **appropriate and systematic use of the Arachne+ risk assessment tool,** as required by milestone 79 under measure C8.R20. This audit is aimed at the examination of the use of Arachne+ by actors in the ICS, and the methodology for the use of its results. The audit examines whether complete datasets are uploaded based on the required periodicity, all mandatory fields are uploaded, procedures ensure completeness before uploading, and finally the risk scores generated by Arachne+ are systematically analysed and followed up by the competent bodies.

The CID also requires (through milestone 65 under measure C8.R9) that DGAEF confirms in an audit report that the **share of tender procedures with single bids** for procurements financed from Union support does not exceed 15%. A thematic audit is designed for this purpose covering public procurement procedures with an estimated value both above and below the EU public procurement thresholds, closed between 1 January and 31 December in 2022-2025 and 1 January and 31 March in 2026.

In respect of this – i.e. ensuring that the share of tender procedures with single bids remains below the required threshold –, the Hungarian bodies undertook the development of a **monitoring and reporting tool of public procurement procedures closed with single bids**. The AA also has to audit this tool to form an opinion on its functionality and compliance with the requirements laid down in the CID (at milestone 66 under measure C8.R9).

To meet the criteria defined at milestone 68 under measure C8.R11 of the amended CID, DGAEF performs the audit of the functioning of the **new functionalities of the Electronic Public Procurement System** (EPS). The objective of this audit is on one hand to examine whether the functions of EPS allow the structured search in contract award notice data and bulk export of all published contract award notice data in a machine-readable format. On the other hand, the audit aims at assessing whether the mentioned functions allow for the gathering, filtering and comparison of data across contract award notices and related to different public procurement subject matters covering information from different types of contract award notices. Further criteria laid down in the CID and Operational Arrangements (OA) are also checked as part of the thematic audit.

A further thematic audit affecting contracts concluded under RRF was initiated on the basis of an audit finding by the European Commission[7] concerning cases where the **estimated value** for a public procurement was not published but it was identical with or only slightly different from the winning tenderer's offer. In its report, the AA assessed whether the match of estimated value and winning offer carries a risk of COI, and whether there are systemic errors brought about by deficiencies in national regulations. It was also examined whether verifications are adequate to provide for fair competition and non-conflict of interest, and to ensure sound financial management.

[7] Audit mission no. DAC514HU2514

Another thematic audit examines the **functioning of the DIAI** with respect to organisational background as well as the validation of the performance of tasks regarding the examination of COI issues. The overall assessment established as a result of the audit covers the functioning of DIAI including the planning and performance of duties.

The conduction of **irregularity procedures and the recovery of irregular funds** is also subject to a thematic audit. In this respect, the AA shall assess horizontally as well as on the basis of a sample of test items whether the procedures required by legislation and applied by the ICS are appropriate for the management of any cases of suspicions of irregularity.

One further thematic audit concerns the contracts concluded by a particular recipient of funds – the **Innovative Training Support Center** (IKK Zrt.). This audit has been initiated in 2026 on the basis of an OLAF report[8], and covers the contracts concluded by IKK Zrt. as a contracting authority and the relating public procurement and other procurement procedures, which have been partially or fully financed from EU or other international support – including RRF. The thematic audit focuses on the preparation and implementation of pre-contractual procedures, and in particular on compliance with the applicable market price.

2027

Follow-up audit of milestones and targets to protect the financial interests of the Union

Due to the nature of some milestones and targets (e.g. those under C5.I8 and C6.I6 in the CID), their implementation extends beyond the deadline for the submission and audit of the final payment request. However, to comply with the expectations set out in Article 22 of the Regulation, the AA plans to audit the execution of such investments as soon as the implementation reaches a stage where it becomes reasonable. These audits shall be scheduled from Q2 2027 onwards until 2030, using a rolling planning approach.

The **Hungarian Development Bank** (Magyar Fejlesztési Bank, MFB) is considered an important actor (Implementing Partner) in the ICS, and the 2026 amendment of the CID delegates even more duties to it than before. Taking into account that the CID provides for a significant equity injection to MFB, and that the roles to be filled by the bank are extended to the management of non-repayable financial support, the AA plans to audit the affected reforms and investments in the CID (C5.I7, C6.I6, C9.I1, C9.I2, C10.R1, C10.I1 and C10.I2.), i.e. the implementation of the delegated tasks (including e.g. compliance with applicable eligibility rules, control arrangements).

Substantive testing of milestones and targets

The ***aim*** of the substantive tests is to provide assurance to the European Commission that the milestones/targets to be reported or already reported, the audit trail and supporting data are correct and reliable, and to ensure the protection of the financial interests of the Union. So dual purpose testing will be used, the simultaneous checking of the milestones and targets and of the sound financial management conditions in order to provide the assurance that the use of funds in relation to measures supported by the Facility complies with applicable Union and national law, and that fraud, corruption, conflict of interests and double funding are avoided.

[8] no. OC/2021/1102/A3

During the planning phase the AA relies on records kept in the national repository system and data provision of the NA.

For the selection of items to be covered by testing, the AA uses a ***sampling methodology*** covering possible methods, the definition of the population and the sampling unit, the sampling parameters and the method of extrapolation. The methodology applies the principles set out in the Guidance on sampling methods for audit bodies under RRF developed by DG ECFIN.

Regarding the selection of milestones and targets for substantive tests planned for 2026, due to the timing of tasks and progress of the implementation of the RRP, one single sample was taken for substantive tests. The selected sample provides for the coverage of all components and at least 30% of all milestones and targets included in the payment request. The results are presented in Annex III of the present strategy.

The AA applies *two levels of sampling* for the selection of projects to be audited in the frame of substantive testing:

I. The first level sampling at the level of a payment request for the selection of the milestones and targets, will be based on non-statistical risk-based sampling combined with a random element; and
II. The second level sampling at the level of the selected milestone or target to select a number of projects will be based on a statistical sampling method.

In case of grants the risk criteria are the following:

- The type of measure (investment/reform): As a general rule, investments are considered riskier than reforms.
- The amount of grant for the achievement of the given milestone/target: Indicators to which a higher costing is attributed are classified as riskier.
- Whether a given milestone/target belongs to a rollover project or not: Since the control points and criteria defined in the regulatory framework for these projects might differ from projects which have been particularly designed to meet RRF rules, they are automatically considered as of high risk. In this respect, projects transitioned from national funding are considered even riskier than those coming from ESIF co-financing.

In case of FI the risk criteria are the following:

- The amount of support for a given FI,
- Number of products/transactions,
- The method of implementation and complexity of the scheme.

The Audit Authority shall consider risk criteria for its risk assessment on the basis of data sent by the National Authority and data available in the RRP and in the monitoring and information system (EUPR) functioning as the national repository system for RRF.

The *population* for the first level sampling includes all milestones and targets submitted to the Commission in the respective payment request.[9] Milestones consisting of audits dedicated to the DGAEF in the CID were excluded from the population.

[9] The nature of the substantive tests carried out by the AA may vary from *ex ante* to *ex post* audits. The former is relating to milestones and targets included in payment requests yet to be submitted to the Commission, while the latter concerns milestones and targets which have already been reported to eh EC in a payment request.

The Audit Authority shall ensure adequate coverage of measures related to milestones and targets in the audit sample. In addition, the AA provides for representativeness in terms of coverage of all components of the RRP. The AA shall also ensure that the sample covers both reforms and investments. AA plans to *stratify the population* into two strata: high risk stratum and medium/low risk stratum. As a general rule the milestones and targets with the highest risk (based on the highest risk score) shall be audited 100%. The milestones and targets from the medium and low risk stratum shall be selected randomly.

The *sample size* is determined based on internationally accepted standards (primarily ISA) and the relevant chapters of Delegated Act on the off-the-shelf sampling methodologies (Regulation (EU) No. 2023/67) and guidance note EGESIF 16-0014-01. Taking into account the recommendations of the Guidance on sampling methods for audit bodies under the Recovery and Resilience Facility for audits to ensure the effective functioning of Member State systems in terms of collecting, storing, verifying and certifying reliable and accurate data on the achievement of milestones and targets issued by DG ECFIN[10], the AA provides for at least 30% coverage of all milestones and targets included in the payment request.

The *reporting period* to be covered by the audits should correspond to the time period to which an RRP payment request is relating to. Since the implementation of all milestones and targets will be reported in one single payment request to be submitted by 30 September 2026, the reporting period extends from the beginning to the end of the RRF implementation period, i.e. from 01 February 2020 to 31 August 2026.

In the course of the *second level sampling*, the AA shall take a sample from the projects linked to the milestones and targets selected in the first round, using simple random sampling. The principles of this procedure are laid down in the Delegated Act on the off-the-shelf sampling methodologies in line with the recommendation of Guidance on sampling methods for audit bodies under the RRF. The population for the second level sampling includes all projects for the milestone or target selected under the first level sampling. In case the population does not exceed 30 items, 100% of the items shall be covered. When the audit population is higher than 30 items, the audit body applies a simple random sampling method.

The use of a risk-based non-statistical method does not allow the *projection of the errors* identified in the sample to the level of the payment request. However, when using the statistical sampling method for the second level sampling, the level of error identified should be extrapolated to the whole population of the particular milestone/target.

Substantive testing is carried out on projects included in the audited payment request, and provides an opinion on the reliability and correctness of the payment requests.

In the frame of the audit on the selected milestones/targets the AA examines the validity and correctness of data provided at project level, taking into account the relevant supporting documents, and evaluates the accuracy of the aggregation at national level. The AA plans to apply the checklists provided as part of the Enquiry Planning Memorandum for audits of milestones and targets by DG ECFIN. Sub-sampling – using the method of sampling provided in the guidance EGESIF 16-0014-01 – could be justified at the level of the final recipients depending on the type of the indicator. The audit scope also includes the assessment of the

[10] Ares(2022)697613

eligibility period, procedures to avoid double funding and conflict of interest, fulfilment of publicity requirements, the examination of public procurement procedures, and the check of compliance with state aid rules. When assessing a project, the audit takes into account the available information in the Arachne+ risk-scoring tool related to the selected project/final recipient/contractor.

The audit shall be carried out at the level of the responsible authority at which the supporting documents are available. If, due to the nature of the project, the implementation/progress can be traced mainly on a documentary basis and there is no doubt concerning the valid content of the available documents, and other audit questions can also be answered on the basis of documents uploaded to the IT system, there is no need to carry out an *on-the-spot check*. As a general rule, at least 15% of the second level sample is carried out on-the-spot, at the level of final recipients/projects.

The schedule of the substantive testing is aligned with the submission of payment request. The AA will carry out *ex ante audits* of the reported data related to the high risk milestones and targets to be declared in the requests for payment. In addition, *ex post audits* are planned to cover additional milestones and targets which have already been reported in a payment request.

Audit of FI transactions

In 2027, when the implementation of financial instruments is well underway to provide sufficient proof regarding the regularity of the use of funds, the AA plans to perform a sample audit of FI transactions selected in line with the methodology described in the above chapter. The aim of the audit is to establish whether the implementation of the project complied with the relevant legislation, internal rules and the grant agreement, the selected financial instrument transactions are legal and regular, the incurred expenditures are in line with the eligibility conditions and the audit trail is available.

Audit of a separate sample of projects

According to the Audit Manual for the implementation of audit tasks concerning the Recovery and Resilience Facility, the Audit Authority – in addition to substantive testing – takes a ***separate sample*** of projects financed by the RRF. Projects implemented through financial instruments may also be selected for separate sample audits where the risk assessment justifies it. In order to protect the financial interests of the Union, the Audit Authority examines the compliance with the relevant EU and national rules (including the evaluation of grant applications, the enforcement of public procurement rules and state aid aspects, the eligibility of incurred costs), the avoidance of fraud, corruption, conflicts of interest and double funding in the framework of the audit carried out on a separate sample. The AA decides on the necessity of the separate sample when preparing the annual audit plan, after reviewing the results obtained from Arachne+ data analysing and risk scoring tool or any other relevant information.

2024

As described in the section on the *Audits of the ICS*, the AA drew a separate sample of two projects financed by the RRF to increase audit assurance. The selection of the sample and the principal audit objectives are summarised in the referenced section of the Strategy.

IV. REPORTING

The Audit Authority compiles a preparatory report for the summary of audits to be submitted by the NA on the results of the system audits and substantive testing, including weaknesses identified and any corrective actions taken. The report follows the template proposed in Annex I of the Guidance Note on the audit summary, provides information on the modifications of the audit strategy, an assessment of any amendments in the internal control system, the main findings and recommendations of system audits and substantive testing, measures taken and controls used for preventing and detecting fraud, conflict of interest and double funding. It also indicates the overall level of assurance on the areas covered by the management declaration based on the results of audits and other relevant information.

DGAEF will prepare the reports in line with the schedule of submission of payment request. The report will cover the audits by the AA conducted in respect of the reporting period.

V. RESOURCES

A separate directorate has been set up to carry out the planning, methodological, audit and reporting tasks related to the RRF. The staff of this organisational unit is dedicated to RRF-related tasks. The head of the organisational unit reports directly to the Director General.

Each staff member possesses higher education degrees and many of them have several years of experience in various fields of expertise and in auditing European funds, including methodology, system audits, audits of operations and reporting. Each staff member receives training upon entering the organisation and is also required to take part in regular planned training activities, in order to develop their knowledge and skills.

DGAEF is also able to involve further experienced staff members in RRF audits through flexible internal job rotation. There are also experts with experience in specific domains (e.g. engineers of transport, energetics and water management) within the organisation. In duly justified cases DGAEF has the possibility and financial resources to involve external experts in the audit work.

DGAEF has considerable experience in the field of financial instrument audits, considering that during the 2014-2020 programming period, it examined the instrument's implementation in the framework of system audits and sample audits in several operational programs. Auditors who already have experience can be involved in the audit of RRF's financial instruments, and before starting the task, as part of the preparation, DGAEF ensures the implementation of knowledge transfer within the framework of internal training.

In terms of capacity planning the AA also takes into account that the audit of RRF is different from ESIF and is able to flexibly adapt to the capacity needs. It is expected, based on the analysis of tasks to be performed, that the performance of the audit activities will require 20 staff members once the implementation of the RRF plan is at full speed.

The resources for the performance of the tasks of the AA are also ensured. Based on Art. 2 of Act XLIV of 2022 budget of the Directorate General is planned independently and may only be modified with the agreement of the Director General and if it does not endanger the effective and timely performance of the tasks of the Directorate.

List of abbreviations

AA	Audit Authority
AS	audit summary
Art.	Article
BAMIR	Belügyi Alapok Monitoring és Információs Rendszer (Monitoring and Information System for IFS and AMIF)
CB	Coordinating Body
COI	Conflict of interest
DGAEF	Directorate General for Audit of European Funds
DG ECFIN	Directorate General for Economic and Financial Affairs
DIAI	Directorate of Internal Audit and Integrity
EC	European Commission
ECA	European Court of Auditors
EGESIF	Expert group on European Structural and Investment Funds
EMIR	Egységes Monitoring és Információs Rendszer (Monitoring and Information System for 2007-2013)
EPS	Electronic Public Procurement System
ESIF	European Structural and Investments Funds
EU	European Union
EUPR	Európai Uniós Programok Rendszere (Monitoring and Information System for ESIF and RRF)
IB	Implementing Body
ICS	Internal Control System
IFAC	International Federation of Accountants
IIA	Institute of Internal Auditors
ISA	International Standards on Auditing
KR	key requirement
MD	management declaration
MFB	Magyar Fejlesztési Bank, Hungarian Development Bank
NA	National Authority
OA	Operational Arrangements
OLAF	Office européen de lutte contre la fraude (European Anti-Fraud Office)
PP	public procurement
Regulation	2021/241/EU regulation of the European Parliament and of the Council establishing the Recovery and Resilience Facility
RRF	Recovery and Resilience Facility
RRP	Recovery and Resilience Plan
RS	repository system

Annex I

IMPLEMENTED AUDIT TASKS
2023-2025

The implemented audit tasks is summarised in the table below:

Audit type	2023	2024	2025
Audit of the ICS	- set up audit of the ICS - audit of the Repository System and the reliability of data on M/T	- assessment of institutional changes in 2 phases	
Thematic audit	- Arachne	- Arachne - assessment of DIAI's activity	- FI
Audit of separate sample		X (hybrid scope with system audit elements, focusing on PFIU aspects)	

Annex II

INDICATIVE AUDIT PLAN
2026-2028

The audit plan is summarised in the table below:

Audit type	before 30 Sept 2026	2026 Q4 – 2027 Q1	2027 Q2-Q4	2028
Audit of the ICS	- system audit of KR2 and KR4		- system audit of ex post controls	
Thematic audit	- repository system - Arachne+ - share of single-bid PP procedures - monitoring tool of single-bid PP procedures - EPS - PP estimated value - activity of DIAI (COI) - handling of irregularities	- IKK		
Substantive testing of milestones and targets	ex ante (based on payment request to be submitted) audit of rollover projects (where applicable)	ex post (based on the submitted payment request) audit of rollover projects		
PFIU follow-up audits			X	X
Audit of transactions			FI	

Annex III

Risk assessment results

CID no.	Component	Milestone/target	Type (Investment/Reform)	Costing (million EUR)	Risk rating (High/Medium/Low)	Justification for selection
6	A	Construction and renovation of school facilities	Investment	151,97	H	High risk, transferred to RRF from national financing.
12	B	Support research entities	Investment	204,04	H	Costing value would imply medium risk rating, however, this is the measure with the highest costing in Component B, so it is classified in the high-risk stratum to ensure representativeness by Component.
14	C	Participation in labour socialisation programmes	Investment	28,40	H	Costing value would imply low risk rating, however, this is the measure with the highest costing in Component C, so it is classified in the high-risk stratum to ensure representativeness by Component.
18	D	Delivery of the Kvassay pumping station – Phase 2	Investment	19,28	H	High risk, transferred to RRF from EEEOP+.
21	E	Works related to the Debrecen-Balmazújváros railway section	Investment	103,45	H	High risk, transferred to RRF from ITOP+.
22	E	Works related to the BékéscsabaLőkösháza railway section	Investment	390,57	H	High risk, transferred to RRF from ITOP+.
23	E	Delivery of zero emission/electric buses	Investment	67,26	H	High risk, transferred to RRF from national financing.
24	E	Trams	Investment	135,23	H	High risk, transferred to RRF from ITOP+.
25	E	Trolleybuses	Investment	31,84	H	High risk, transferred to RRF from ITOP+.
26	E	Works related to the Szeged-Rendező - Röszke – Border of the country railway section	Investment	141,84	H	High risk, transferred to RRF from national financing.
28	E	Implementing Agreement	Investment	0,00	L	Randomly selected investment from the M/L risk stratum.

CID no.	Component	Milestone/target	Type (Investment/Reform)	Costing (million EUR)	Risk rating (High/Medium/Low)	Justification for selection
29	E	Legal agreements signed with final beneficiaries	Investment	0,00	L	Selected because it is directly connected with Milestone 28.
30	E	Ministry has completed the investment	Investment	19,42	L	Selected because it is directly connected with Milestone 28.
31	E	Entry into force of legal act(s) related to tariffs	Reform	0,00	L	Randomly selected reform from the M/L risk stratum.
32	E	Equity injection into the ROSCO	Investment	1800,00	H	High risk based on costing value.
33	E	Set-up of the National Public Transport Authority	Reform	0,00	H	Selected because it is directly connected with Milestone 32.
34	E	Set-up up of the ROSCO	Reform	0,00	H	Selected because it is directly connected with Milestone 32.
38	F	Entry into force of legal act(s)	Reform	0,00	L	Randomly selected reform from the M/L risk stratum.
42	F	Number of households supported	Investment	211,16	M	Randomly selected investment from the M/L risk stratum.
45	F	Number of public buildings benefitted from energy efficiency renovation	Investment	32,70	H	High risk, transferred to RRF from TSDOP+.
46	F	Implementing Agreement	Investment	0,00	H	Selected because it is directly connected with Milestone 48.
47	F	Legal agreements signed with final beneficiaries	Investment	0,00	H	Selected because it is directly connected with Milestone 48.
48	F	Ministry has completed the investment	Investment	856,76	H	High risk based on costing value.
50	G	Refurbishment of health facilities and upgrading of healthcare equipment	Investment	240,00	H	High risk, transferred to RRF from national financing.
51	G	Expansion of online health functions and procedures	Investment	24,65	H	High risk, transferred to RRF from national financing.
52	G	Programmes for primary health care	Investment	195,37	M	Randomly selected investment from the M/L risk stratum.
53	G	Local health and social infrastructure	Investment	18,21	H	High risk, transferred to RRF from TSDOP+.

CID no.	Component	Milestone/target	Type (Investment/Reform)	Costing (million EUR)	Risk rating (High/Medium/Low)	Justification for selection
78	H	The systematic use of the Arachne risk scoring tool	Reform	0,00	L	Randomly selected reform from the M/L risk stratum.
106	I	Adoption of legal act(s)	Reform	0,00	L	Randomly selected reform from the M/L risk stratum.
112	I	Legal agreements signed with final beneficiaries	Investment	0,00	H	Selected because it is directly connected with Milestone 113.
113	I	Ministry has completed the investment	Investment	643,24	H	High risk based on costing value.
114	I	Implementing Agreement	Investment	0,00	L	Selected because it is directly connected with Milestone 116.
115	I	Legal agreements signed with final beneficiaries	Investment	0,00	L	Selected because it is directly connected with Milestone 116.
116	I	The MFB has completed the investment	Investment	61,27	L	Randomly selected investment from the M/L risk stratum.
121	J	Investment policy	Investment	0,00	H	Selected because it is directly connected with Milestone 122.
122	J	Equity injection	Investment	1126,82	H	High risk based on costing value.
123	J	Legal act on MFB equity injection and EIB allocation	Investment	0,00	H	Selected because it is directly connected with Milestone 124.
124	J	Equity injection and signature of a Memorandum of Understanding between Hungary and the EIB	Investment	688,34	H	High risk based on costing value.
125	K	Digital data wallet solution	Investment	14,72	H	High risk, transferred to RRF from DROP+.
126	K	Signature of the Contribution Agreement between Hungary and the EuroHPC JU and disbursement of the voluntary contribution to the EuroHPC JU	Investment	500,00	H	High risk based on costing value.

CID no.	Component	Milestone/target	Type (Investment/Reform)	Costing (million EUR)	Risk rating (High/Medium/Low)	Justification for selection
127	K	Signature of the Contribution Agreement between Hungary and the European Commission and assignment of a Voluntary Contribution to the EU Secure Connectivity Programme (IRIS²)	Investment	500,00	H	High risk based on costing value.