

Summary
of the Audit on the Operation of the Organizational System
Performing Public Tasks Related to the Clearway Network (1003)

In accordance with its annual audit plan, the State Audit Office carried out the audit on the operation of the organizational system performing public tasks related to the clearway network covering the period of 2006 to 2009.

According to the Road Transport Act the Hungarian State had already established the entirely state-owned organizations responsible for the development of the clearway network before the audited period. The National Infrastructure Developing Private Co. Ltd. (hereinafter: NID Ltd.) is responsible for the clearway construction, while the operator and maintainer of the clearway network is the State Motorway Management Co. Ltd. (hereinafter: SMMC Ltd.). The Coordination Center for Transport Development (hereinafter: CCTD) is the professional background institution of the ministry responsible for transport and as a budgetary institution it manages the budgetary appropriations serving as the source of financing of the clearway development. CCTD is also the property manager of the clearway network.

The division of labour between the organizations financed by public funds and responsible for the development and operation of the clearway network, based on professional duties set out in laws, was not significantly modified between 2006 and 2009. The organizations performing public functions had carried out their duties stipulated by law, for which they had also used external capacities. For performing the duties the necessary vehicles were available at all three organizations and they also provided vehicles for personal use for a specified group according to regulation, which, to a considerable extent, could not be justified by the performed duty.

In the audited period nearly 312 km of clearways were put into use, approximately of a total investment value of HUF 800 billion. Budgetary expenditures related to the development of the clearway network decreased from year to year and, despite the intention of the Governments in power, the involvement of private capital and EU funds in the development of the clearway network was minimal compared to the scale of the investments. Because of the failure of private capital involvement planned in form of bond issuance, HUF 3 billion of sunk costs arose.

The person of the minister responsible for transport changed five times in the audited period, which did not help the stable, predictable management, the performance of professional duties. In the Ministry of Economy and Transport (hereinafter: MoET) and in the Ministry of Transport, Telecommunication and Energy (hereinafter: MoTTE) the number of personnel performing duties related to the clearway network was reduced from 100 persons at the end of 2005 to 32

persons in 2009, mainly because the professional duties related to the raising of EU funds and managing the appropriation were transferred to the CCTD. The MoET and the MoTTE did not control the operation and the financial management of the organizations of the clearway network and did not evaluate the appropriateness of the activity of the institutions. The MoET prepared the single transport development strategy in 2007 that was not adopted by a government decisions.

The activity of the NID Ltd. expanded in the audited period: besides the construction of the clearway network it also carried out duties of road development and of road and railway development financed by the EU. Accordingly, NID Ltd. adapted its organizational structure to the duties, during which the number of managerial levels decreased. The operation of NID Ltd. was regulated. The number of staff at NID Ltd. rose from 135 to 327 persons in the audited period. In compliance with that the budgetary subsidy for its operation rose from HUF 3.34 billion in 2006 to HUF 5.7 billion in 2008. In 2007 and in 2008 nearly 20% of the annual operational subsidy was reserved for the following years. At the NID Ltd. 25.7-39.8% of the amount used for investments was under the projected value. The reason lying behind was not analyzed. There is no single, professionally accepted indicator system for assessing the effectiveness of the operation of the organization, thus it could not be evaluated precisely. Each year 10-20% of the decisions of the directorate of NID Ltd. and 11% made of those of the Supervisory Board were made by means of fax voting, without holding a meeting, thus the decision was not preceded by a detailed professional discussion.

The processes and operation of SMMC Ltd. were regulated. In relation to the planned privatization of SMMC Ltd. the professional and the proprietary management separated in 2008, consequently in 2009 the professional decisions were prolonged in time. The annual strategies of SMMC Ltd. determined the general objectives of the organization, but they were not discussed and approved by the directorate of SMMC Ltd. The length of the road network, operated and maintained under contracts of 1-2 years by SMMC Ltd., increased at a rate of more than 50% in the audited period and by the end of the first half of 2009 it reached nearly 1300 km. In relation to the core activity and in the operational field the SMMC Ltd. concluded a total number of 288 expert and consultancy contracts, for which a sum of HUF 1355 million was paid – out of which HUF 715 million for the preparation of the privatization. Because of the decrease of the budget resources in the years 2008-2009 the drafts approved for reconstruction and maintenance were less than those of technical designs, thus the technically justified reconstruction and maintenance of the road network was not fully carried out.

The CCTD carried out professional partial functions in cooperation with NID Ltd. and SMMC Ltd. Besides managing the appropriations for the clearway development, the task of CCTD was also controlling their use, for the purpose of which it involved external organizations as well. The gross value of clearways managed by CCTD was HUF 1439.6 billion as of 30th June 2009. Despite the

legal requirements no property management contract had been concluded between CCTD and the Hungarian State Holding Company (hereinafter: HSHC), therefore from the end of 2007 it did not take over clearways from the investing NID Ltd.

Based on the statements of the audit among others we recommended that the Minister of Transport, Telecommunication and Energy control and evaluate the efficiency and the economy of the institutions related to the clearway network, as well as that the President of the Hungarian State Holding Council arrange for the conclusion of the asset management contract between HSHC and CCTD.