

Summary of the Audit on the Utilisation of Financial Means Appropriated for the Targeted Tasks of the Environmental Protection Found (0409)

We evaluated the utilisation of the resources appropriated for the targeted tasks of the Environmental Protection Found (KAC) based on the period of 1998 to 2003. Favourable modifications took place in respect of the managing, the regulation of the utilisation of the appropriation as well as in the tendering mechanism but the audit revealed omissions that had been pointed out partially in previous SAO audits as well.

The period was characterised by the frequent fluctuations at the upper-, and central managerial level and this resulted in the lack of a concept for the efficient utilisation of KAC in the long run. The background of the rules and internal regulations at KAC has been frequently changed just like its organisational structure, the division of the spheres of tasks, activities and authority. The managerial tasks have been integrated into the organisation of the ministry - partially since 2001, and fully since 2002. The audit tasks were delegated to the State Treasury beginning with 2002 – thus the division of the organisational structure and the tasks became permanent. At the same time this planning, managing, executing and controlling system was contradicting the government decrees prescribing the obligation of delegating servicing and information tasks to external organisations. Apart from this they also disregarded the KAC strategic proposals laid down in the twinning programme realised with the assistance of the EU in 2001. These proposals suggested the creation of an organisation with independent legal entity. Beginning with 2004 the performance of the duties will be adjusted to this proposal but the Organisational Rules and Regulations of the organisation is not valid yet and the taking over of the tasks has not been done either. The utilisation of KAC were regulated by ministerial decrees and directives. In 2003 they published the statutes of the divisions and the rules of procedure of KAC, however the regulation of the control, the IT background and recording system remained incomplete. Thus we suggested the speeding up of the structure transformation and parallel with this making the transformation complete.

The continuity of the National Environmental Protection Programme (NKP) that serves as the background of KAC was not ensured as its first phase was completed in 2002 but NKP II was presented to the National Assembly for ratification only at the end of 2003. Due to this delay the appropriations valid for 2003 and the ministerial decree about the supportable targets in 2003 did not have an accepted programme in the background. The goals to be supported and

their backing were set in the Action Plan published every year in the form of a government decree but these were appearing with several months' delay considering the planning procedure of KAC, thus their harmony with the KAC resources wasn't ensured and on two occasions the resources for KAC tasks surpassed the KAC budgetary appropriation. We suggested to re-establish the harmony of the planning.

During the audited period four supportable goals (development, public goal, mining related landscaping and National Environmental Loss Adjustment Programme) have not changed. Yearly issued ministerial decrees have provided the main fields to be subsidised and their proportions. In the audited period the major proportion of KAC resources, i.e. HUF 105,2 billion was paid to environmental protection goals via tenders. Within this, in the audited period it was the Protecting the Quality of Water (Sewage Water) Project received the most subsidies (52%). Regional local governments led the rank of claimants (51,4%). KAC could also spare some subsidies for the professional activities of the department as during the audited period the subsidies amounting to HUF 12,5 billion were transferred to the institutions of the chapter via tendering and individual decisions. The number of subsidised tenders and the respective amounts were highest in 2000-2001. Following this period the amount of subsidies decreased both in total and also by supported targets. For example, this happened in case of subsidies earmarked for development that earlier had always enjoyed a priority. Within public purposes subsidies ministers have had the right to make individual decision. In 2002 the minister decided on the utilisation of an amount totalling to HUF 1,5 billion. It was criticizable that the individual tasks have not been subsidies according to their priority, for example the amount paid for decreasing pollen allergens was enough only for local protection. At the same time there were several cases of subsidies without exact environmental protection targets, amounting to HUF 1 billion. The security of public money was ensured by mortgage and banking guarantees.

Within the resources of environmental protection developments the proportion of KAC subsidies was 20%. According to the prescriptions related to the decision-making process of subsidies the applicants had to find themselves resources to cover the remaining 80%. This financing system of 4-5 channels wasn't clear enough. It limited the chances of the applicants in seeking additional resources, at the same time it wasn't in harmony with several EU recommendations which – in respect of EU funds – are expressively prohibiting this method of financing. The joint handling of environmental protection resources was partially realised when beginning with 2004 the decision-making authority was transferred to the Regional Development Councils.

The slow tendering mechanism has been an obstacle for the efficient utilisation of KAC, because the average time dedicated to the processing the applications

was 160 days, but occasionally it took even half a year. In the judgement system the conflict of interest was regulated in the case of experts and the jury but despite of this in one case the rules of conflict of interest were hurt. Beginning with 2003 the judgement mechanism changed favourably, thanks to the four working committees created with the participation of public and civic organisations. At the same time we objected that civic organisations could have got predominance in a committee, thanks to the regulation (this did actually happen), the guiding role of the ministry was pushed back, the expert-activities of the civic organisations were not adequately clarified, thus we suggested to ensure to assert the leading role and amend the regulation of the expert activities. The formally and content-wise correct tenders were evaluated by a previously defined professional and economic marking system – save one committee. In case of judging tenders with similar aims the proposals were evaluated in a relative way, by comparing the tenders presented for evaluation at the given moment. Tenders refused on count of lack of resources got a second chance for support only in case they were submitted again.

The regulation of all the control phases of the subsidy mechanism was inadequate, the independent control of the subsidy system wasn't tackled. The supervisory and internal control were not efficient as only 8% of the audits were aiming at the utilisation of KAC. Due to the above we formulated a proposal to make the controlling rules comprehensive. At the same time meeting the tasks of financial audit and the audit done by the State Treasury were regular.

There were solely natural data available concerning the utilisation of KAC. Evaluations analysing the utilisation of subsidies had not been prepared despite the fact that rules and ministerial decrees prescribed output oriented evaluations by tenders, respectively by titles. A study was prepared by an outside organisation about the evaluation of subsidies paid in the period of 1996 to 2001, but even this study had not analysed the effects. For the year of 2002 no summary was prepared. Basic data, inventories and analytical methods were missing for the evaluation. They started elaborating the evaluation indicators in the frame of a study in 2002 but their introduction will take place only following the realisation of investments that started in 2002.

The sewage investments and the tenders concerning the decrease of air pollution have marked the goals to be reached thus, in the cases of tenders audited on-site there was an opportunity for individual evaluations. At those settlements which had obtained subsidies for sewage investments the proportion of hook-ups to sewage canals had occasionally surpassed the required 90% but there were cases when this proportion, or that of the utilisation of cleaning systems was only around 50%. In case of other subsidy goals our audit could not make comprehensive evaluations concerning the effectiveness of utilisation, due to the

lack of adequate inventories, thus we suggested the creating of a comprehensive professional evaluation method and inventory system.