

**Summary**  
**of the Audit on the Operation of the Ministry of Agriculture and**  
**Rural Development Chapter (0710)**

The target of the audit was the evaluation whether the Ministry's governing, supervisory, control activity and financial management provided proper conditions for the effective operation and whether the utilization of domestic and EU sources contributed to the development of the sector. Our audit covered the period of 2003-2006.

The basic tasks of the Ministry of Agriculture and Rural Development (MARD) did not change essentially, whereas the configuration of the organizational, regulatory audit system incidental to the EU accession and the harmonization of the domestic support system to the aims of EU subsidies came forward as a new, preferential task in 2004.

In the interest of the efficient support of the agriculture the Ministry established the receiving and managing organization system of the EU subsidies. Besides this the Ministry implemented organizational modernizations and conversions with the aim of saving. The Agricultural and Rural Development Agency (ARDA) was established but its accreditation was delayed by one year. With the integration of four administrative territories the Ministry established the Agricultural and Budgetary Office and the Agricultural Department Administrative Office with the contraction of 66 institutes. At the same time, based on governmental decisions, the structure of the organization had to be changed in 2006, so the chapter's headcount radically decreased by approx. 33 percent (by 5000 persons). The Government's decision was not built on an analysis and the planned savings through cut back are not known. The cost effect of the cutback will be nearly HUF 4 billion.

The chapter's budgetary management has been restricted by the central budgetary austerity from 2004. The financing of the institutes was complemented from a chapter managed appropriation. It served the handling of the source deficit, that the Top-up appropriation, which complements the EU's territory based subsidy, was not planned on a separate range. According to the Ministry's standpoint it will end the permeability between the EU's National Rural Development Plan subsidies (NRDP) and the national subsidies. A few months, occasionally over a year defaults in paying of several supports put the farmers, who had started their projects, in a difficult situation. The MARD was often in a HUF 5 billion default of payment towards the Hungarian State Treasury (HST) and the Hungarian Tax and Financial Control Administration (HTFCA or APEH). By 2006 the central budget within the operation of the National Land Fund accumulated HUF 2 billion arrears towards the Pension Payment Directorate. Within the framework of proprietary activities, thanks to the venture activity they managed to maintain some public companies, which fulfill strategic tasks, in spite of the subsidies reduced by 75 per cent, e.g. the Reserves Management Non-Profit Organization became profitable as a result of

the liquidation of the unprofitable activities and the latch on to the intervention grain storage.

The audit system is imperfect. Since 2006 the organizational independence of the Ministry's internal audit - contrary to legal regulations - has not been ensured. The Ministry did not wind up a research institute's irregular and wasteful operation till its elimination. MARD did not exercise professional control over the individual supports' settlement of accounts; did not ask for the experiences of the audits or asked for them only occasionally. The administrative audit system duly supported the agriculture. The monitoring system of the four dangerous animal diseases was established. The headcount of the authorities diminished by 20 per cent contrary to an EU audit recommendation of a 15 per cent headcount raise.

The professional support of the farmers' society was characterized by deteriorating circumstances. Marketing activity was forced back. They reduced the headcount of the village agronomists by 20 per cent, the number of the territory centers by 15 per cent, so their availability became harder but they do not modernize the organization and the instrumental background. The consulting service prevailed restrictively, because this activity was provided by external organizations as well. The agriculture's mental capital, the gene banks and the assets which represent irreparable national value, are endangered because the elimination and privatization of several secondary schools and research institutes appeared on the agenda. Support of secondary education decreased by 34 per cent. The last time they announced a tender for R&D within research in 2003. The amount of this has decreased by 20 per cent from the year of 2004 and it has covered only determination.

In 2004 the chapter's title order was altered because of the EU accession, but they used big aggregates by several appropriations, so the management of subsidies was not transparent. The medium term agriculture policy plan, respectively the medium term agriculture and rural development plan was not completed in contempt of legal regulations. Instead of the missing strategy they appraised the most important strategic tasks, documents and legal regulations in the Agriculture and Rural Development Operational Program (ARDOP). They submitted the future's strategy, the "New Hungary Rural Development Strategic Plan" to the EU in the beginning of 2007.

After 2004 the centers, priorities of the agriculture subsidies acted on the programs reliant to EU sources. The rate of the national subsidies diminished from 95 per cent to 36 per cent, its amount was affected by the status of the budget and uphold of the co-financing, new support forms were launched occasionally. The subsidies of the agriculture grew with the sources of SAPARD from 2004 and with the sources of ARDOP from 2005, but it reached only in 2006 the year of 2004's level. The agriculture could not exploit in time the financial advantage from the EU accession, because the development of the tender management mechanism was overdue, and the withhold of tenders due

to the scantiness of national resources meant delay. The tender management mechanism was slow; the payments have been speeded up from 2006. Because of these the affects of EU subsidies could not unfold not even in 2005. So our audit could not valuate overall the affects of subsidies, we can report only positive (e. g. alteration of credit facilities, starting the payment of territory based subsidies) and negative (e.g. withhold of tenders and payments, delayed consideration) facts.

In the EU's subsidy structure the development and income subsidies represented some 30 per cent rate. The amount of income subsidies diminished nearly to its half by the year of 2006. The support of agricultural financing was successful because the long-term debt, which means fewer specific charges, increased through the cut down of short-term credits; this increased the liquidity of farmers' management. The territory based and the supplementary subsidies were specific forms, these could be regarded as separate subsidy types because of their targets and volume (HUF 268 billion). The interest in ARDOP and the National Rural Development Plan (NRDP), which hold together the agricultural and rural developments subsidies, did not confirm the plans in every cases. Within the framework of ARDOP inside the development of rural areas the interest in subsidies which claim immediate results (tourism) was typical. Interest appeared towards the LEADER+ Program, but its supports are low value, so the allocated average development expenditure of the affected settlements is only HUF 7 million. Within the NRDP the greatest interest was shown towards the agriculture-environment management.

Because of the resource gap several basic tasks were not completed or were not completed wholly. Animal husbandry was not prioritized, whereas the import of animal products, especially meat and dairy products grew remarkably. The number of the animal stock decreased by 7 per cent on the whole, within this it meant a 20 per cent fall by the individual farmers while by the agrarian organizations it was a 10 per cent rise. In the agrarian water management the resource gaps endanger the inland inundation defense, so e. g. the normative amount, appropriation and upper limit of the water prevention institutes diminished. Within the water management tasks the finance of the operation was irregular. The first grade of the water management institutes' reconstruction shut down in 2003, but the continuation of it was cancelled, so the remaining defense works of the second grade reflect a 20-25 years old state. The budget line of the Vásárhelyi-plan, which is handled by the Ministry of Environment and Water (MEW), decreased by 43 per cent, so the professional aspects were pushed into the background, the schedule of the implementations were postponed. Because of the resource gap the National Forestation Program (NFP) has been implemented only in 80 per cent so far, the required cover of the National Forest-program was realized neither in 2006 nor in 2007. The rate of forestation lags behind by 7 per cent points from the profession's desired 27 per cent; the tendency of planting is rising in a small degree. The compensation amount of elemental damages decreased, the contribution to insurance fees were

completely terminated; from 2006 they have not allocated supports with reference to the launch of the prevention of loss's new system.

On the grounds of the audit findings we made recommendations to the Government to supervise the privatization of the research institutes and the handling of the financing of prioritized tasks. Among others we made recommendations to the minister to strengthen the audit system and the village agronomist network and to supervise the animal husbandry as a priority.