

**Summary**  
**of the Audit on the Modernization of Rail Transport (0815)**

The Hungarian State Audit Office (SAO) has concluded its audit on rail transport modernization. The main audit findings and recommendations were as follows.

The audit in question was the third among the ones in which the SAO thoroughly analyzed rail transport. It covered the utilization of resources, the restructuring of the organization, implementation of modernization measures, and the decisions on branch lines.

In the audited period, rail transport modernization was addressed by several comprehensive development papers. They had one thing in common: none of them were adequately supported by resources. At the decisions rail development as a whole did not get the attention it deserves. The duties, obligations falling under the public service activity (which is the passenger transport activity to be agreed with public bodies) were not set down in a contract. Corporate governance was too complicated and could not ensure the transparent and concentrated use of development funds, thus the present system of funding railway development is not efficient.

The financing of MÁV Zrt. (Hungarian Railways Close Company) from the central budget amounted to HUF 1.680 billion since its becoming a shareholder group i.e. from 1<sup>st</sup> July 1993 until the end of 2007 at current price. From this amount HUF 294 billion went to investments, HUF 957 billion to operational support and HUF 405 billion to capital grant, credit takeover and rescue program.

The transforming of MÁV Zrt's organization was made difficult by the fact that in the period of 2002 – 2007 32 persons held a position in the administrative board, the composition of the board was modified seven times, partially due to changes of concepts. In the course of the above period five different rules of organization and operation defined the circle of company management (directors) where 7 to 16 managing positions were provided by 50 different persons, while the position of the managing director was held by four persons. The management of the company accepted four different strategic materials under different titles and with different goals.

At the preparation of the decision-making process of the Ministry of Economy and Transport concerning the branch lines it was a risk that data on the respective cost and effect analyses are unreliable; no effect studies were made in relation of the long term sustainability of the life and economy of the regions; the deadline for social reconciliation and the declaration of intent from the concerned local governments.

The marketing of the rail cargo business unit was unfeasible and contradictory. When marketing MÁV Cargo Zrt. the legislative purpose concerning assets remaining in durative public ownership did not prevail. The signed contract contains gratuitous obligations for MÁV Zrt. while the obligations undertaken by the buyer are solicitous and at several spots unfeasible in respect of the Hungarian State. The example of MÁV Zrt. also proves that by a certain interpretation of the law all activities of a public company can be outsourced into subsidiary companies without the control of the national assembly. Following this, and based on similar decision-making mechanisms public assets are privatized while emphasizing company ownership, then the incoming revenues are eaten up by the parent company. Thus the permanent public asset becomes an empty company that lost its assets, has not function and is uninteresting regarding its economic, strategic importance.

These days there is no uniform rail rolling stock inventory in Hungary; it is not obligatory to introduce the periodic official roadworthiness tests that exist in the EU countries and which would make it possible to identify the rail wagons participating in the domestic traffic as well as the regular and compulsory check-ups of the railway rolling stock.

In the course of the past decades the technical state of the railway infrastructure has continuously worsened. One of the basic reasons of deterioration is that there were no covers ensured for maintenance and renovations, the resources earmarked for investments were not enough even to keep the general technological level.

In the field of passenger service the performance has decreased in all genera of haulage at MÁV, altogether by 4%, as a result of streamlining the supply of passenger service. The passenger service of GySEV Zrt. (Győr-Sopron-Ebenfurt Railway Close Company) has nearly doubled in the field of diesel haulage due to the transfer of lines, altogether with 76, 2 %. In the field of transporting commodities the output has increased in all genres of haulage, i.e. at MÁV by 27, 9 %, at GySEV by 41, 6 %.

In the period of 2002-2007 the railway companies used development sources worth of HUF 377 billion (59, 3 %) compared to the planned HUF 636 billion. Twenty four point 9 percent of the resources (HUF 93,8 billion) originated from EU support, 18, 6% (HUF 70 billion) from own risk borrowing, 19,8 % (HUF 74,8 billion) from borrowing against public guarantee, 16, 5% (HUF 63,3 billion) from the central budget (first of all from capital settlement), 10, 3 % (HUF 38,8 billion) from other sources (limit takeover, utilization of assets) and 9, 8 % (HUF 37, 3 billion) from operational revenues.

The property management of MÁV Zrt. can be characterized by the lack of the clarification of ownership rights, limitations encumbering the non-transparent realty situation and the frequent changes of concepts and management concerning asset management. When marketing a piece of realty at the Nyugati railway station a buyer disqualified due to the mistake committed by MÁV

submitted his claim for indemnity worth of HUF 27 billion, while the new buyer claimed indemnity worth of HUF 17 billion.

The supervision of the owners was inadequate. The internal control at MÁV Zrt. revealed the misuse but no substantive measures were taken. In the audited period and the audited topics there were several administrative actions at the MÁV group, among them criminal procedures as well. We carried out our audit by taking into consideration the tether of the authorities.

Based on our audit we formulated our recommendations for the Government concerning the regulations related to the development of the railway system and of the railway transport. We also recommended measures to terminate the revealed omissions and to proceed with impeachment.