

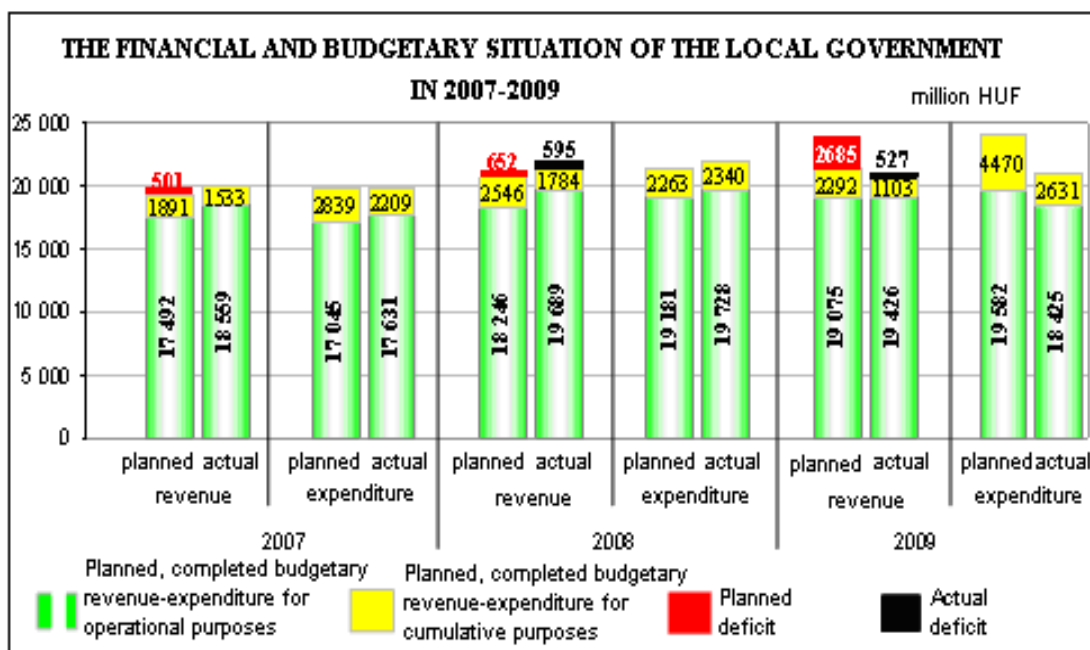


SUMMARY

of the Audit on the Financial Management System of the Local Government of Budapest District III (Óbuda-Békásmegyér) (1014)

Since 2003 the State Audit Office of Hungary (SAO) has been auditing the financial management system of local governments of counties, county level towns, districts of the capital city of Budapest and towns – in alignment with the municipal elections – once in the four-year cycle, according to a uniform national programme. The first such audit of the financial management of the local government of district III of the capital city of Budapest took place in 2005 and now the SAO completed its audit of the four year period 2007-2010.

On 1 January 2010 the number of inhabitants of the district was 125,194. Ten standing committees assisted the work of the 36 member representative body of the local government. In 2009, mainly its 45 budgetary institutions and six economic enterprises, entirely owned by the local government, participated in the provision of the tasks of the local government. According to the accounting balance, at the end of 2009 the local government had at its disposal assets worth HUF 122,911 million. The following chart shows the trend of the budgetary revenues and expenditures of the local government:



The purpose of the audit was to evaluate how the Local Government ensured the budgetary and financial balance in its budget and in the course of the implementation of its budget; whether the importance of the fiscal transactions aimed at financing changed in respect of covering the missing revenue resources; whether the Local Government was effective in respect of regularity and organisation in its preparation for the claiming and utilization of EU resources; whether it implemented and operated the supported objective; furthermore, whether it ensured the conditions of electronic public services, the publicity of the financial management by making management data accessible; and whether in 2009 the Local Government established and reliably operated the internal controls of the financial management; whether financial management control and internal control contributed to the regular completion of the tasks. Based on an ex-post audit the SAO evaluated, whether the Local Government had appropriately utilized the findings, the regularity and expediency recommendations made by the State Audit Office in the past four years.

Major findings of the audit

The Local Government did not ensure the budgetary equilibrium in the years 2007–2010; the budgetary revenues did not cover the budgetary expenditures. In the course of the implementation of the budget **the financial balance** was ensured in 2007, contrary to the situation in the following years. The Local Government borrowed long-term credits for the expenditure for cumulative purposes in 2008-2009 and it received current-account credit every year to ensure its continuous solvency. Altogether, for its increasing indebtedness and diminishing solvency the financial situation of the Local Government deteriorated from 2007 to 2009.

In respect of regularity and organisation the Local Government altogether did not prepare in an effective way for claiming EU resources and utilising the expected subsidies between 2007-2009.

The Clerk provided for the fulfilment of the **disclosure obligation** insufficiently, as he did not disclose the data required by law of nearly three quarters of the contracts regarding the utilization of funds and asset management, as well as the data of four-fifths of the earmarked subsidies. Additionally, he did not indicate the data concerning the purpose of the subsidy and the place of implementation of the aid scheme.

The regularity of the budget planning and final account preparation **processes** represented low risk in the course of the appropriate and regular implementation of the tasks. In the budget planning and final account preparation process **the adequateness of the functioning of internal**

controls established for the prevention, detection and correction of the operational errors was altogether excellent. The deficiencies of the regulation of the financial management, the financial-accounting and built-into-the-process audit tasks altogether represented medium risk in the regular implementation of the tasks due to the deficiencies of the organisational and operational rules of the Mayor's office, the rules of procedure of the economic organisation, the audit trail, the procedure of managing irregularities and other regulations. However, the established internal controls prevented the majority of the possible errors. In the course of payments related to economic events the appropriateness of the established internal controls was excellent, as the persons assigned by the Clerk to attest professional performance fulfilled their tasks of certifying eligibility and numerical correctness of the expenditures. Moreover, the counter-signer of the vouchers made sure that the rules governing financial management had been respected, and that the attestation of performance was issued and enforcement was implemented.

The establishment and regulation of the organisational framework of **internal audit** represented altogether low risk in the appropriate and regular implementation of the internal control tasks, as the internal audit director was appointed, a strategic plan was elaborated and the annual audit plans were approved by the representative body. The appropriateness of the established controls at the operation of the internal audit was proper, but the risk analysis for the annual audit plans was not elaborated in compliance with the operative risk analysis procedure. Moreover, the high number of audits involving the Mayor's office was inconsistent with the quantity, importance and risk of the performed tasks.

The implementation of former recommendations

76% of the recommendations made by the SAO were entirely and 12%-12% were partly and not implemented, respectively. These recommendations were made in the course of the comprehensive audit on the financial management of the local government in 2005, in the course of the audit on the claiming of and accounting for normative state contributions in 2006, as well as in the course of the audit on the implementation of the municipal decree on the 2007 distribution of the revenues between the municipality of Budapest and local governments of the districts.

Apart from the findings of the on-site audit, in order to promote the observation of the legal stipulations and the level of the work **the SAO formulated recommendations** for the mayor and the Clerk concerning the preparation of the budget, the regularity and organisation of the claiming and utilization of EU subsidies, the disclosure of data of public interest, as well as the establishment

and appropriate operation of internal controls. The SAO recommended that the Mayor should inform the representative body about the audit findings, promote the implementation of the recommendations and make an action plan elaborated for their implementation.