

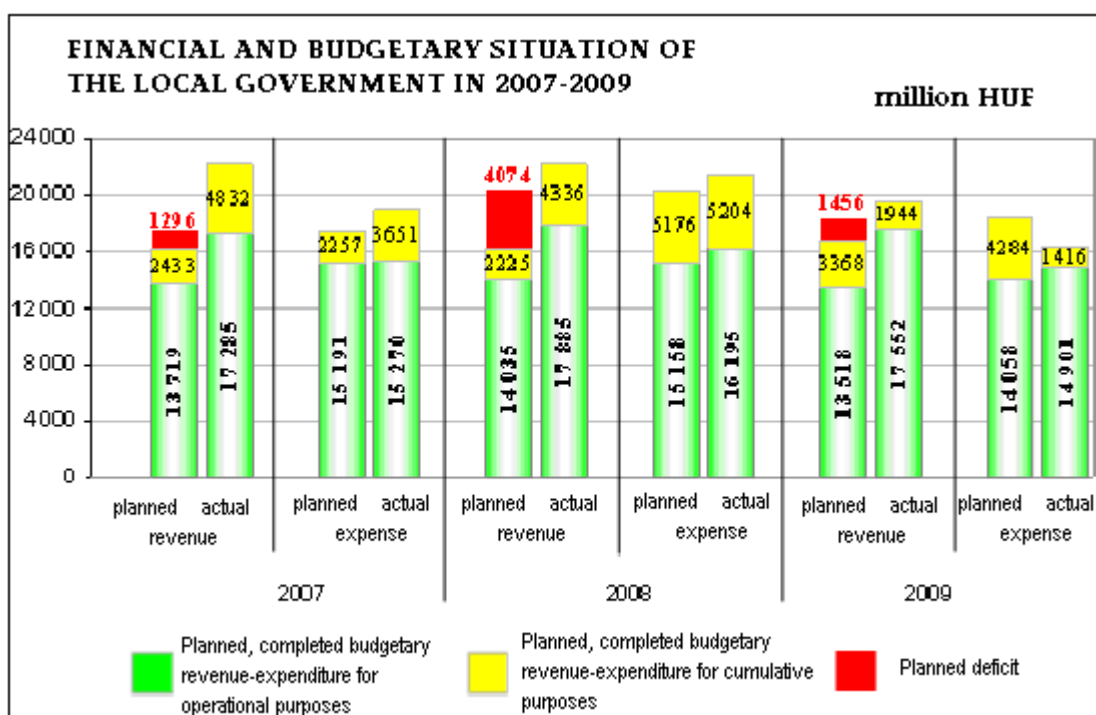


## SUMMARY

### **of the Audit of the Financial Management System of Budapest District VIII (Józsefváros) (1015)**

Since 2003 the State Audit Office of Hungary (SAO) has been auditing the financial management system of local governments of counties, county level towns, the 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 Budapest capital city district VIII local government 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 in the district was 69,430. Ten standing committees assisted the work of the 28 member body of representatives of the local government. Beginning with May 2009 the body of representatives decreased the number of standing committees to four. The Major was elected at the interim elections on 22 November 2009, while the post of the Clerk has been taken by the same person since 2005. In the performance of the tasks of the local government in 2009 mostly their 32 budgetary organizations and seven economic enterprises participated. According to the accounting balance at the end of year 2009 the local government had at its disposal assets worth HUF 130,376 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 procedures aimed at financing changed in respect of the replacement of the missing revenue sources; if the Local Government was effective in its preparation for the claiming of and the utilization of EU sources, in respect of regularity and organization; if it had implemented and operated the supported priorities; furthermore, whether it ensured the conditions of electronic public services, the publicity of the financial management by making data of the management accessible; if in 2009 the Local Government established and reliably operated the internal controls of the financial management; if financial management control and internal control contributed to the regular completion of the tasks. Based on an ex-post audit we 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 balance in case of the 2007–2010 budgets; the budgetary revenues did not cover the expenditures. In the course of the execution of the budget **financial balance** did exist. In the years 2007-2009

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the local government borrowed long-term loans. In 2006 they issued own bill of exchange worth CHF 24 million equalling approximately HUF 3,869 million with repayment obligation extended to 20 years. The financial situation of the local government altogether followed an unfavourable trend from 2007 to 2009, as indebtedness grew and the solvency weakened.

In respect of regularity and organization, the local government was **effectively** prepared for the claiming and utilization of EU funds.

The Clerk took care of its **publishing obligation** on its website deficiently, as – contrary to the legal regulations – he did not publish the data of support for operational purposes given by an institution. Moreover, data of contracts signed by the institutions reaching or exceeding the value of net five million HUF were not published on the local government’s website.

**The regularity** of the budgetary planning and the procedure of making the final accounts represented medium risk in the course of the appropriate and regular performance of the tasks as the Clerk did not regulate the audit of the reliability of the recommended appropriations and the indicator survey of the institutions or if the known commitments had been planned with. The appropriateness of the internal controls established for the prevention and correction of operational errors in the planning and the procedure of making the final accounts were adequate.

The regulation of the control tasks of the financial management, the financial-accounting and built-into-the-process tasks altogether represented low risk in the appropriate and regular implementation of the tasks. In the course of payments related to economic events the appropriateness of the established internal controls was weak as the counter-signer of the money-orders did not object to the fact that the person who issued the attestations of professional performance was not appointed by the Clerk. Also, they did not comment on the fact that at the time of signing the commission contract regarding the expert’s activities, respectively at the time of the payment of the first contracted remuneration there were no funds available to cover the transactions. Additionally, the attestation of professional performance was been issued by using the wording stipulated by the regulation.

The deficiencies of the development of the organizational structure of **internal audit** and its regulation represented medium risk in the appropriate implementation of the internal control tasks as the number of internal auditors had not been determined in harmony with the tasks. The strategic plans for the period of 2004–2009 were not supported by risk analyses and the body of representatives approved the annual audit plans with delay. In case of the

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functioning of internal audit, the appropriateness of the controls was weak as nearly the half of the audits forecast in the annual plan had not been completed, the audits had not been carried out according to the audit plans approved by head of the inter audit function.

### **The implementation of former recommendations**

Altogether 65% of the SAO recommendations made during the comprehensive 2005 audit of the financial management of the local government and of those made during the additional audits completed in 2007–2008, were utilised by the deadline determined in the action plan. 16% of the above recommendations were partly implemented while 19% of them were not utilised.

Apart from the findings of the on-site audit, in order to promote the observance of legal stipulations as well as the improvement of the level of the work, **we formulated recommendations** regarding the establishment and functioning of internal controls and regarding the publishing of the respective data on the internet. We recommended the Clerk to inform the body of representatives on the basis of annual calculations – with regard to the increasing indebtedness of the local government – under what conditions can the local government ensure its commitment of paying back the capital and the interest resulting from the long-term commitments undertaken.

We recommended that the Mayor should inform the body of representatives on the findings of the audit and promoted the implementation of the above recommendations and have an action plan drawn up for their execution. Additionally, we recommended that the Mayor should initiate the impeachment of the Clerk as the Clerk bears the responsibility in the Mayor's Office for the shortcomings regarding issuing and counter-signing the attestations of professional performance, as well as for the operation of the internal controls and part of the shortcomings had already been revealed by former SAO audits also recommending the termination of the mentioned shortcomings, however the Clerk did not make steps to implement them.

Due to the signature of one commission contract and the shortcomings experienced in the course of the payment of the contracted fee, the State Audit Office of Hungary informed against the local government, the investigation is currently in progress.