



ÁLLAMI  
SZÁMVEVŐSZÉK

ROUGH TRANSLATION!

## SUMMARY

### **of the Audit of the Financial Management System of Local Governments in 2009 (1019)**

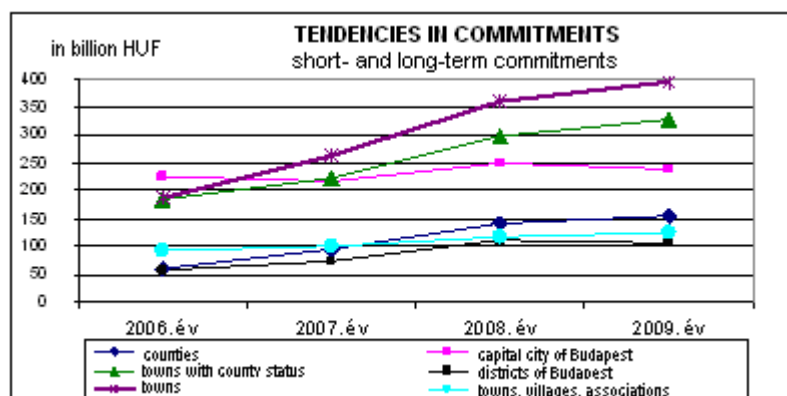
By considering the scheduling of the four year period of 2007-2010 we completed the 2009 audit of the financial management of local governments on the basis of a uniform national audit programme.

**The audited local governments and the audited period:** in the year 2009 we audited the financial management system of four local governments of county rank, six of cities of county rank, six of Budapest capital city districts, 66 of cities, four of large villages and 32 of parish councils. In the course of the audits we were focusing mostly on the financial management of the year 2008, but followed the financial-economic processes up to the end of the on-site audits and evaluated the events and data of the years 2006-2009, when judging the individual financial management tendencies. In case of the Municipality of Budapest the audit in 2009 covered the issues of the uniform national audit programme with respect to the effectiveness of the preparations for the claiming of the EU support.

**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 and the utilization of EU funds, 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:** in the years 2006-2009 about one eighth of the local governments did not ensure **budgetary balance**; their budgetary revenues did not cover the planned budgetary expenditures and they planned to ensure the balance by borrowing. In the course of the budget implementation they realized budgetary expenditures exceeding budgetary revenues at a smaller

proportion like this, i.e. in 2006 at approximately half of the local governments, while in the period of 2007-2009 at about one third of them was the year closed by financial deficit. In the course of the implementation of the 2006-2009 annual budgets a smaller than planned proportion of local governments borrowed credit. At the same time, in the years 2006-2008 the proportion of local governments issuing bonds was higher than planned, while in 2009 this proportion was smaller than planned. In the years 2006-2009 more than two thirds of the audited local governments issued foreign currency based bonds with changing interest rates. The determined grace period for the starting of capital redemption varied between half a year and five years. Due to the changing exchange rates of foreign currency and the changing interests' conditions issuing bonds represented risks for the local governments. By the transitorily improving conditions of the liquidity situation the financial indicators are signing the unfavourable changes of the financial situation – apart from the growing indebtedness of the local governments.



In the period of 2007-2009, close to three quarters of the local governments did effectively prepare for the obtaining and utilization of **EU funds**. In half of the local governments the information servicing obligation between those monitoring the calls for proposals and those having spheres of authority for decision making, respectively for preparation of decisions was not regulated; in case of close to one tenth of the audited local governments the financial management control tasks were not specified. Most of the local governments ensured the personnel conditions necessary for writing tenders and implementing development tasks. However, in case of approximately one third of contracts signed with external organizations they did not put it down in writing the rules of the responsibility regarding the observance of tender requirements and in case of about half of the concerned contracts they did not specify the controlling obligation of the person responsible for the implementation of the development. Additionally, in case of two thirds of the audited local governments, the risk analysis, serving as a basis for the audit strategy, did not cover the development

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tasks supported by EU funds. In case of the audited development tasks that had been implemented by the support of EU funds, the disbursement of the support – after the submission of payment applications – took half month to one and a half year. The temporal drawn out of the payments was, first of all, the result of the formal and substantial deficiencies of the documents supporting the claims as well as of the invoices.

At about 90 % of the audited local governments an IT system was in operation that ensured public services. Merely one eights of those ensured the possibility of downloading and electronic filling out of documents required for the administration. The further development of the electronic administration was delayed by the lack of financial resources and IT literate human resources. The **publicity of financial management data** of public interest was not adequately ensured as about half of the local governments deferred the publishing of targeted supports and the data stipulated by rules concerning contracts exceeding the value of net HUF five million, as well as the written explanation of the annual budget report – contrary to the legal obligations.

In the course of auditing the **regularity of financial management** we found that at close to three quarters of the audited local governments of counties, county level towns, the districts of the capital city of Budapest and of the municipalities, the budgetary planning, the final accounts preparatory processes, as well as the establishment of the regulatory and organizational frameworks represented low risk. Compared to the previous years, at an ever growing proportion of the local governments, i.e. at three-fifth of them, the organization of the financial management and of the financial-accounting tasks as well as their regularity represented low risk. The shortcomings of the regularity of IT tasks represented high risk at 39 % of the local governments. The compliance of the **functioning of the established controls**, in case of the procedures of budgetary planning and final accounts preparation at approximately half of the audited local governments of counties, county level towns, the districts of the capital city of Budapest and of the municipalities was altogether excellent. In case of the implementation of the financial management and financial – accounting tasks the compliance of the issuing of professional task delivery and the counter signing of the vouchers was weak in case of a decreasing proportion of the local governments, compared to the previous years; at close to one third of them it was excellent, while in case of about one fifths it was adequate. The compliance of the functioning of internal controls established in connection with IT tasks was weak at about half of the local governments, while in case of one third of them it was adequate and in case of close to one fifths it was excellent.

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At close to one half of the local governments the establishment of the organizational framework and the regulation of the functioning of **internal control** represented medium, at about one third of them low risk in the course of the regular implementation of the internal control tasks as the method of internal controls was specified and the necessary personnel and organizational, regulatory conditions were ensured. At about close to one half of the local governments the compliance of the established controls in the functioning of internal control was adequate and in case of one thirds altogether it was excellent.

**Recommendations:** close to two thirds of the recommendations made to the local governments at the earlier comprehensive audits of their respective financial management were utilized. The substantiation and regularity as well as the regularity of the financial management related to the budgetary planning and reporting processes have improved. Contrary to the recommendations we continued experiencing shortcomings at the implementation of financial management and control tasks. Based on our audit experiences we formulated recommendations for the responsible ministers concerning the calculation method related to the full duration of the commitments undertaken by local governments and resulting in debt, the money-market transactions that the local governments are entitled to perform, the univocal determining of the mandatory tasks of local governments, as well as commenting on public procurement processes regarding the deadline stipulated for the SAO, and the amendment of the legal regulations concerning the local governments' commitments and the attestations of professional performance.