



Summary
of the Audit on the Financial Management System of
the Local Government of Town Emőd in 2011 (1114)

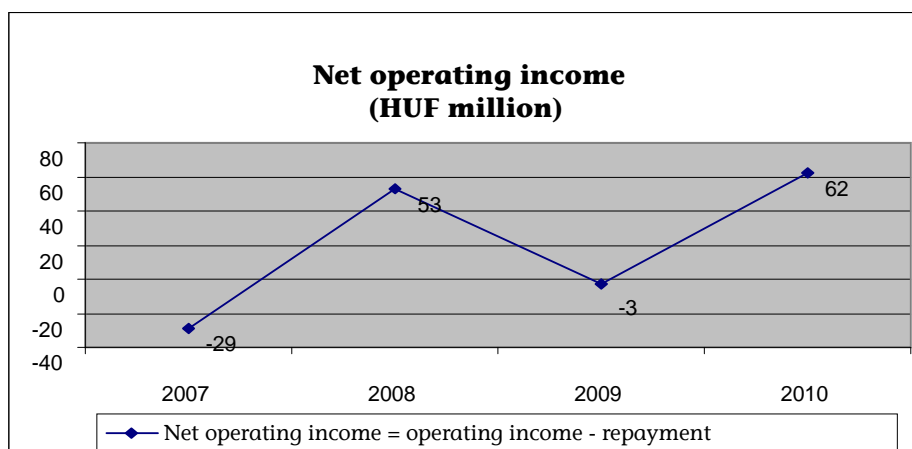
Background and objective of the audit

According to the strategy of the State Audit Office of Hungary (SAO), which came into force in 2011, “during the audit of local governments, the SAO evaluates their financial-economic situation, explores their risks, and selects the sites of the audits on the basis of an objective indicator system.” The SAO audits the financial management system of local governments according to its audit plan compiled in alignment with these objectives.

The objective of the audit carried out at the Local Government was to evaluate whether financial balance, solvency and the stability of the financial management were ensured and whether these were assisted by the debt management; how the property status changed as a result of internal and external factors, whether the regularity and effectiveness of property management were adequately ensured by internal controls; whether the recommendations concerning regularity and expediency, made in the course of the former audit of the financial management system were utilised.

Main findings

The financial balance of the Local Government was ensured in the audited period between 2007 and 2010, because the available reserves (residue) covered the deficit of each year. The current budgetary balance (operating income) of the Local Government was positive throughout almost the whole audited period. There was a minor deficit in 2009. The net operating income, reflecting also the impact of repayment after the loans borrowed is shown on the below figure:



Except for 2007, the budgetary expenditures of an investment and renovation nature exceeded the budgetary revenues received for these purposes every year. However, it did not constitute a financial risk, as financial balance could be ensured partly with financing operations, but even more with the residue available.

The property decreased by HUF 204.1 million, i.e. 5.3% between 2007-2010, primarily as a result of the depreciation accounted due to assets given for operation, constituting nearly one-third of the property. These assets did not need to be renovated yet, thus the lack of replacement did not cause a problem. At the Local Government of Town Emőd, the deficiencies of the regularity of property management processes represented medium risk, as regularity prevented the majority of the possible property management errors. In the Mayor's Office of Town Emőd, the operation of internal controls in property management processes was good, as the minor deficiencies revealed (to a tolerable extent) did not endanger the prevention and correction of errors found in the audited areas of property management.

Utilisation of former recommendations and formulation of recommendations

In the course of the follow-up audit of the implementation of recommendations made during the 2008 audit of the financial management system of the Local Government, it was found that 63% of the recommendations were utilised, while 37% thereof were not implemented. Apart from the findings of the on-site audit, for the purpose of meeting legal regulations and improving the level of the work, the State Audit Office of Hungary formulated recommendations on ensuring financial balance, as well as concerning the establishment and operation of the internal controls of property management. Furthermore, the SAO recommended

the implementation of recommendations concerning regularity and expediency, which were made by the SAO in the course of the 2008 audit of the financial management system of the Local Government and were not implemented. SAO recommended that the body of representatives should discuss the findings of the report and they should prepare an action plan to address the deficiencies revealed.