



ÁLLAMI
SZÁMVEVŐSZÉK

Summary
of the Audit on the Financial Management System of
the Local Government of Town Vásárosnamény
(1116)

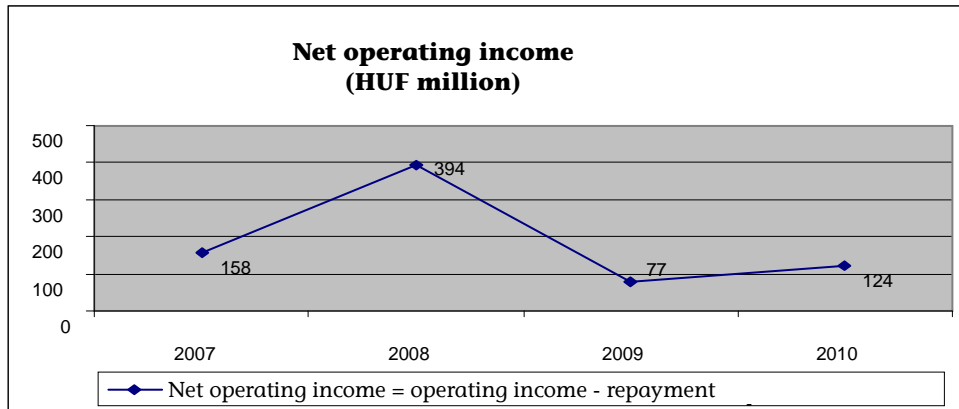
Background and objective of the audit

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 liability of the owner was effectively enforced at the business association mainly owned by the Local Government, participating in the performance of public tasks; 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 between 2007 and 2009, because the available reserve (residue) covered the deficit of each year. However, it did not cover the deficit in 2010. In the audited period, the current budgetary balance (operating income) of the Local Government was positive every year. The net operating income, reflecting also the impact of repayment after the loans borrowed is shown on the below figure:



Every year, the budgetary expenditures of an investment and renovation nature exceeded the budgetary revenues received for this purpose, which did not constitute a financial risk until 2010, as financial balance could be ensured partly with financing operations, but even more with the residue available. However, the budgetary expenditures of an investment and renovation nature of 2010 could not be counterbalanced by neither the budgetary revenues received for this purpose, nor by the net operating income or by the residue available.

Between 2007 and 2010, the property of the Local Government increased by HUF 870.6 million, i.e. 18%. The deficiencies of the regularity of property management processes represented high risk in terms of the appropriate performance of tasks, because the rules – as they were not established or were deficiently established – did not sufficiently prevent the possible property management errors. In the Mayor's Office, the operation of controls in the property management processes was weak in 2010, as the controls operated with too many deficiencies to ensure the prevention, detection and correction of property management errors. Thus, the effective and appropriate property management was endangered.

At the business association entirely owned by the Local Government, the liability of the owner was not adequately enforced, as the decision concerning the way of task performance was not supported by professional and cost-effectiveness calculations, the activity of the business association was not controlled, and the Local Government assessed deficiently the operation of the business association and the enforcement of the owner's liability.

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 36% of the recommendations were entirely, 9% were partly utilised, while 55% 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, on the establishment and operation of the internal controls of property management, as well as concerning the enforcement of the owner's liability. Furthermore, the SAO recommended the implementation of the 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.