



ÁLLAMI
SZÁMVEVŐSZÉK

Summary
**of the Audit on the Financial Management System of the Local
Government of Village Gyöngyöspata in 2011 (1120)**

Background and objective of the audit

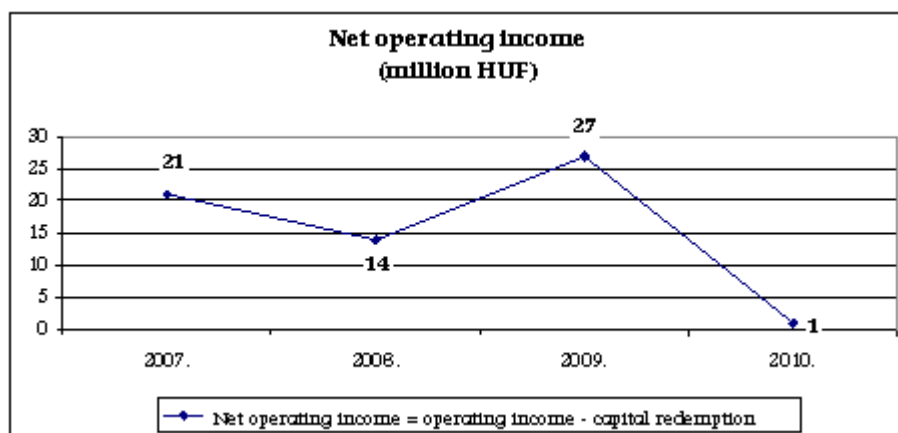
According to the strategy of the State Audit Office of Hungary (SAO), which came into force in 2011, *“during the audit of local governments, the SAO evaluates their financial-economic situation, explores their risks, and selects the audit sites on the basis of an objective indicator system”*. The SAO 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 endorsed 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.

Main findings

The financial balance of the Local Government was ensured between 2007 and 2009, because the available reserve (residue) covered the deficit 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, to a greater or lesser extent. The net operating income, reflecting also the impact of repayment after the loans borrowed is shown in the below figure:



The cumulative budgetary expenditures exceeded the revenues for the same purpose each year, which was covered by the surplus of the operating budget together with the available residue in 2007-2009. However, this was not the case in 2010. For financing cumulative expenditures in 2010, current account credit was also borrowed. A significant part of cumulative expenditure in 2010 was related to the reconstruction of the health center supported by the EU. Moreover, several renovation tasks of a lower resource demand were performed, related to the obligatory public tasks. Due to the irregularities experienced in the course of payments made for the reconstruction of the health center, the Public Procurement Arbitration Board of the Public Procurement Council established the case of infringement of law, in the course of the proceedings for legal remedy initiated by the State Audit Office of Hungary. The demand for own resources of the extension of the kindergarten supported by the EU and beginning in 2011, which cost HUF 108 million, will probably further hamper the restoration of the financial balance.

The **property** decreased by HUF 11 million, i.e. by 0.7% between 2007-2010, primarily as a result of the depreciation accounted due to assets given for operation, constituting approximately one-fifth of the property. The current account credit, which was not repaid by the end of the year, resulted in the increase of the liabilities at the end of 2010. The deficiency in the regulation of property management processes represented high risk, as the Clerk did not specify the control tasks of property management processes. In the Mayor's Office, the operation of internal controls in the property management processes was weak, as there were too many deficiencies to ensure the prevention, detection and correction of property management errors. Contrary to the stipulations of the Local Government's regulation on the budget, in 2010 those entitled to act as mayors did not conclude a contract with the beneficiaries, did not specify the purpose of the subsidy and an accountability obligation. The Clerk did not

provide for the control of the proper use of the subsidy and the disclosure of its data on the website of the Local Government.

Recommendations

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 compliance with the provisions of the Act on Public Procurement, on the establishment and operation of the internal controls of property management. Concerning the subsidies provided for a special purpose, the SAO formulated recommendations on the determination of the purpose of the subsidy and the control of the proper use of the subsidy, as well as on the disclosure of financial management data on the website in order to facilitate the transparency of property management. The SAO initiated that the Mayor present the report to the body of representatives and prepare an action plan based on the findings and recommendations of the report and send it to the SAO within 30 days from the receipt of the report.