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ÁLLAMI  
SZÁMVEVŐSZÉK

**Summary**  
**of the Audit on the Operation of the National Bank of Hungary**  
**in 2010 (1122)**

**Objectives and scope of the audit**

Since 2002 the State Audit Office of Hungary (SAO) has been auditing the financial management of the National Bank of Hungary (NBH), as well as its activities falling outside the scope of its basic tasks, on a yearly basis. The SAO audited the 2010 operation and financial management of NBH in harmony with its annual audit plan also in 2011. The SAO assessed, whether the operation and the management, decision-making and control systems of NBH complied with the stipulations of the Act on the National Bank of Hungary, NBH's deed of foundation and the resolutions adopted by the shareholders. Besides, SAO audited the regulation and regularity of NBH's settlements related to the central budget, as well as the regularity and transparency of NBH's financial management. It was also audited, whether the austerity objectives of NBH were met and whether the recommendations of last year's audit were utilised.

**Main findings**

The 2010 operation, management, decision-making and control systems of NBH complied with the stipulations of the Act on the National Bank of Hungary. NBH did not respect the clauses of the Act on Public Procurement and its internal regulations in all cases.

In its 2010 report on the operation of the National Bank of Hungary in 2009, SAO already recommended the Governor of NBH to evaluate their efficiency-enhancement measures of 2009-2011 in correlation with trends in total expenditures on the Bank's level. Despite accepting SAO's calculation method during the previous year's talks, NBH did not apply it when evaluating the financial management of 2010. In its 2010 financial statements, when indicating personnel expenses, NBH accounted for savings surpassing the actual reduction of costs – realised on the Bank's level – as a result of the efficiency-enhancement measures. The amount of the 2010 personnel expenditures was HUF 654 million lower than in the previous year, while there were several opportunities to reduce costs (e.g. changes in regulations related to taxes and contributions, a cut in the Governor's salary stipulated by law) in the amount of circa HUF 800 million, irrespective of the efficiency-enhancement measures. In comparison to the opportunities, NBH could manage to achieve a cost-reduction HUF 146 million

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smaller. Based on the above, the cost-reduction effect of NBH's efficiency-enhancement measures cannot be proven; when managing workforce and personnel expenditures, NBH did not comply with its austerity objectives.

In 2010 NBH accounted for operational expenditures in the amount of HUF 12,783 million, which was HUF 945 million lower than last year's figure. Misleadingly, in the executive summary of NBH's annual report this was presented however as a result of the efficiency-enhancement measures.

Compared to previous years, the average monthly gross salary of NBH's staff increased each year, in 2010 it exceeded more than three times the salary of those employed in the national economy. In 2010 NBH implemented a 4.7% wage development, which was higher than the rate recommended by the National Council for the Reconciliation of Interests and the wage policy objective set in NBH's strategy. Also, by 1 percentage point it exceeded the average rate of wage-rise commercial banks planned to introduce, while this circle was specified as a reference market for wage developments by NBH itself. The Governor of NBH applied the respective salary cuts stipulated by the Act on NBH to the circle specified, which complied with the regulations of the law. The salaries of 16 executive officers of NBH exceeded the amount of the Governor's 2011 salary stipulated by the Act on NBH, which does not reflect the scopes of authority and responsibility within the Bank. NBH did not amend its wage policy objectives even with respect to the financial-economic crisis; with its measures it did not support governmental wage policy and the realisation of the Government's austerity objectives.

Besides the communication function consisting of 24 persons, for HUF 1.8 million per month the Governor of the National Bank of Hungary employs one person as a communication adviser whose work and performance could not be attested by any professional documents provided by NBH. The Governor of NBH did not sign the declaration of completeness sent by the President of SAO, but amended its content with a restrictive clause.

In 2010 NBH accounted for investment expenditures worth HUF 1,839 million, out of which HUF 1,314 million was allocated to IT-developments. Setting up a data warehouse supporting analyses necessary for the NBH's professional task performance has been a priority objective since 2003. Related expenditures in 2003-2010 amounted to HUF 1,065 million. In 2010 the National Bank of Hungary adopted a strategy for developing the data warehouse, which included the demands of the different professional areas, did not fully take into account however the analytical tasks and did not contain links to the other IT systems of NBH and the division of tasks. In the first place, the adopted strategy aimed at the stabilisation of the operation, did not contain however the strategic-level

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specification of the roles the data warehouse should play in NBH's task performance, or the comparative analysis of technological development possibilities.

When auditing the procurement procedures, SAO revealed infringements in two cases related to the implementation of investments, and in one case related to the utilisation of services. In the course of one procurement procedure related to an investment, NBH did not specify the estimated value in compliance with the Act on Public Procurement; while in the course of another procedure, the tenderer was not asked to justify the flagrantly low price. NBH modified one fixed-term contract related to the utilisation of a service without carrying out a public procurement procedure.

NBH's settlements related to the central budget were regulated and complied with the rules. The 2010 operation of the National Bank of Hungary resulted in a deficit of HUF 41.6 billion. As the profit reserve provided cover for that, there was no payment obligation in the 2011 budget.

### **Recommendation for the Minister for National Economy**

When implementing the monetary policy, there are certain decisions – related to the accomplishment of the monetary policy and the application of the tools thereof – that have an impact on the performance of NBH and are not taken within the competence of the Monetary Council, but the Governor of the National Bank of Hungary. Therefore, we recommended the Minister for National Economy to revise the Act on the National Bank of Hungary with a view to reveal, whether the regulation of the factors influencing the deficits of NBH contains comprehensive and unambiguous stipulations; as well as to initiate amendments when necessary, in order to limit the transferability of decision-making competences vested in a board and to control the exercise of powers.

### **Recommendations for the Governor of the National Bank of Hungary**

Besides the utilisation of the findings of the on-site audit, SAO summarised its recommendations for the Governor of the National Bank of Hungary in five points. It was recommended that the data warehouse strategy should be renewed, so that it specifies the data warehouse's future role in the performance of banking tasks, its relation to the other IT systems supporting analyses and handling data asset, as well as the division of tasks. The Governor of the National Bank of Hungary was recommended to stipulate for the independent and well-documented quality assurance of projects, in order to reduce implementation risks and clearly divide execution responsibilities. Also, the

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Governor of NBH was recommended to provide for the effective operation of financial management control when concluding contracts, carrying out procurement procedures and attesting performance. SAO also recommended providing for the full observance of the stipulations of Act on Public Procurement. The Governor of NBH was also recommended to evaluate the cost reductions due to the efficiency-enhancement project – upon the closure of the project – with regard to their impact on the Bank’s level, as well as the extra costs of implementation.