



Summary
of the Audit on the Financial Situation of the Local
Government of Town Győr with County Status (1134)

Relevance of auditing the local governments of towns with county status

The current economic difficulties of Hungary can be attributed mainly to the disorder of public finances in former periods and to the high total debt. The year 2010 demonstrated that part of the risks is not connected to the central budget, but to the local level of public finances. Due to the financial management difficulties, the increase in the cash flow deficit, as well as the dangers resulting from indebtedness in the local government system, the State Audit Office of Hungary (SAO) decided to audit the financial situation of local governments. The risk analysis carried out by the State Audit Office of Hungary showed that firstly the audit of local governments operating at the middle level – mainly those of counties and towns with county status – is reasonable.

The audit objective was to evaluate whether the local governments of towns with county status ensured long-term financial balance and whether the recommendations concerning regularity and expediency aiming to improve the financial balance – made in the course of the former audit of the financial management system – were utilised. The audit covered the years between 2007-2010 and, where possible, we also tried to include the period until the end of the last quarter before the on-site audit.

The financial equilibrium of the local government of town Győr with county status

The outstanding total bank liabilities of the local government increased from HUF 3.4 billion at the end of 2006 to HUF 6.4 billion at the end 2010. The credits borrowed were allocated for the funding of infrastructural developments supporting the performance of tasks, bonds had not been issued.

The current budgetary balances showed a surplus in terms of operating resources in each year of the audited period at the local government. The local government did not operate a hospital, its economic enterprises proved effective. The amount of operating incomes effectuated in the years 2007-2010 was HUF 20.5 billion, which – besides the costs of operation – served as the resource for the repayment obligations and partially also covered the expenditures for cumulative purposes.

Within current revenues, the amount of central budgetary subsidies and personal income tax revenues did not significantly change, however their proportion did decrease. Compared to operational revenues, their share represented 39.5% in 2007 and 30.9% in 2010. More than one third of the current operational revenues, i.e. 36.7% thereof in 2010, resulted from tax revenues. Out of these revenue resources, in the audited years the local government effectuated a total income of HUF 58.8 billion. New taxes had not been introduced, the extent of taxes had not been modified, however the scope of exemptions did gradually narrow. Between the years 2007-2010 the local government accounted for HUF 1.7 billion resulting from temporarily liquid assets placed in deposit, while HUF 0.6 billion was spent on interest costs.

The development activity of the local government – especially the implementation of major investments – was stimulated by the funds made available via tendering. The acquisition cost of investment and development works realised in the years 2007-2010 and finalised by 31 December 2010 was HUF 26.8 billion. On 31 December 2010, the expected cost of ongoing development tasks was HUF 27.2 billion, out of which HUF 17.7 billion was already paid by the end of 2010. The amount of liabilities committed for the period after 2010 is HUF 9.5 billion, whose funding resources result from domestic subsidies in the extent of 81.7%.

The local government did not examine what kind of obligations the replacement of depreciated assets might cause. In the years 2007-2010 after the tangible assets a depreciation of HUF 11.4 billion was accounted for, while in the same period HUF 6.5 billion was spent on renovation.

Besides its favourable financial situation, the local government continuously took account of its revenues and expenditures. By means of measures reducing expenditures, the most significant savings could be made via energy rationalisation programmes. As a result of measures increasing its revenues, the local government obtained HUF 0.4 billion, nearly 90% of which was realised by the utilisation of free capacities.

In summary, it can be concluded that the financial situation of the local government was stable in the past years. Operational revenues ensured the financing of operational expenditures and debt service each year. The voluntary tasks did not influence the safety of the operation of the local government. The structure of tasks carried out by economic enterprises is transparent, it did not increase operational risk. The necessary cover for the funding of post 2010 liabilities for development purposes is available. By means of a balanced budgetary management and financially sustainable development decisions, the

amount of resources necessary for the repayment of credits and liabilities to suppliers can be ensured.

Recommendations for the Mayor

- To follow up and to present to the General Assembly the financial situation of the local government and its economic enterprises in qualified majority ownership, as well as the local government's and its institutions' payment arrears to suppliers overdue for more than 60 days.
- To present in the draft final accounts decree the amount of depreciation and – in comparison to that – actual expenditures spent on the replacement of depreciated assets, as well as the degree of the assets' depreciation.
- To submit to the General Assembly an amendment on the division of tasks specified in the Operational and Organisational Rules as compulsory and voluntary.
- To provide for the disclosure of revenues and expenditures for operational and cumulative purposes in the 2011 final accounts decree, in a balance-sheet structure.

Main recommendations for the Town Clerk

- To provide for the review of the amount of current account credit limit following the local government's liquidity;
- To follow up on the expected future foreign exchange and interest rate risks, as well as the risks posed by repayment and off-balance-sheet items (guarantee); and to inform the General Assembly about the trends thereof.