



ÁLLAMI
SZÁMVEVŐSZÉK

Summary
of the Audit on the Legality of the Financial
Management of the Hungarian Socialist Party in
2009-2010 (1205)

Objectives and scope of the audit

The State Audit Office of Hungary (SAO) carried out an audit concerning the legality of the financial management of the Hungarian Socialist Party (hereinafter Party) in 2009-2010 on the basis of legislative authorisation, as the Party is eligible for regular budget subsidies as a consequence of its results obtained in the first round of the general parliamentary elections in 2006 and 2010.

The objective of the audit was to evaluate whether the annual financial statements prepared by the Party and published in the Gazette of Official Announcements and on the website of the Party are in line with the relevant legal provisions; whether the data provided is fair and in accordance with general ledger records, whether the Act on Accounting and related legal provisions as well as internal regulations were observed in the course of bookkeeping and financial management. Furthermore, it was also assessed whether the resources used for the operation of the Party were eligible for such purposes, whether business activity was carried out as allowed by the act on political parties.

Main findings

According to the officially published and modified closing financial balance of the Party of 2009 and 2010, 74% and 64% of the total revenue of the Party derived from central budget subsidies in 2009 and 2010, respectively. In the period of the SAO audit, the Party corrected its annual financial statement of 2009, as a contribution of HUF 17.0 million received from a legal entity as cancelled debt was indicated as 'other revenue' instead of having been entered as 'donation from domestic legal entities'. It constituted a specific material error that the donor was not specified by the Party, although the contribution exceeded the threshold, above which the name of the donor has to be given according to law. Due to a consolidation error, the revenue-side of the closing financial balance sheet contained a surplus of HUF 20.1 million and of HUF 2.5 million in 2009 and 2010, respectively. However, the amended 2009 financial statement as

well as the 2010 statement show a reliable and fair picture on the financial management of the Party.

The Party had a comprehensive accounting regulation in place as stipulated by the Act on Accounting. The accounting policy and regulations on fund management were updated due to organisational changes. The regulation of the system of accounts was erroneous, as pursuant to the regulation, the cancelled debt was presented in the statement as 'other revenue' instead of 'other contributions and donations'. The system of accounts did not stipulate that in-kind contributions received from territorial entities of the Party and kept by the general accounting department shall be disregarded. Part of the regulatory deficiencies are related to the fact that legislators did not attach an instructional manual to the Statement Exemplar included in Annex 1 of the Act XXXIII of 1989 on the Operation and Financial Management of Political Parties, therefore the completion of the form may vary party by party as to their accounting policy. The Statement Exemplar is not in line with the provisions of the Act on Accounting, moreover it does not meet the requirements applicable to the balance and the profit and loss statements - therefore it provoked some material errors in the 2009 statement. The system of accounts was revised and amended in the period of the SAO audit.

The basic principles of the Act on Accounting were applied in the bookkeeping. The regulation on the daily closing amount of the money stock was violated in one third of the cases in the regional and electorate district cash offices, as the daily closing amount of the money stock exceeded the statutory limit of HUF 500,000.

According to the bookkeeping records of the Party, it did not receive any asset contributions from sources prohibited by the act on political parties in the audited period. The Party only pursued economic activities authorized by the act on political parties. In the audited period, the Party wound up CONCEDO Ltd by final settlement, and sold KÖZ-TÉR-HÁZ Ltd, which were two single-member companies of the Party.

Personal costs, wages and fees of those not being permanent staff members were accounted for according to lawful agreements at the headquarters of the Party. Employees were issued meal vouchers in an amount below the tax-exemption limit, reimbursement for interurban travel tickets, and in case of two territorial organisations of the party work clothes, as well as schooling support for parents with children of school age, respectively. Five county-level territorial organisations provided support for protective glasses to employees working in front of the computer in 2009. The use of private and official cars for official purposes and the accounting thereof were regulated, agreements were concluded

with the persons concerned related to the use of their private cars for official purposes. The refund of costs was accounted for on the basis of regularly completed travel orders and journey logbooks using a tax-exempt normative rate. Official cars were used for official purposes in line with internal regulations – according to the journey logbooks and records kept at the stations until 31 January 2009. From 1 February 2009 the Party accounted for costs related to the ownership and use of its cars, therefore it was obliged to pay company car tax, which was fulfilled on time. Statutory obligations concerning taxation and social security were all met by the Party in the audited period. The obligations concerning the declaration and payment of taxes and contributions were fulfilled.

The control activities of different entities (central, county level and local financial control committees) and financial management control supported the regularity of financial management and operation. The operation of the IT systems related to financial management was partly regulated. In the period of the on-site audit, a regulation on the IT security, as well as the protection of the internal data and information of the Party was put into force in order to address the deficiencies. The Party ensured the security of financial management data by means of regular saving and limiting the access rights to the respective staff member, thus a controlled access was guaranteed.

Recommendations

The SAO recommended the Ministry of Public Administration and Justice to initiate the amendment of the act on political parties in order to ensure the enhanced transparency of party financing and the accountability of parties with regard to resolving the contradictions between the act on accounting and the act on political parties having existed for years.

The SAO recommends the head of the Party to take measures for the application of the accounting principles of authenticity and consistency in the future in order to produce reliable financial statements.