



ÁLLAMI
SZÁMVEVŐSZÉK

Summary

Summary of the Audit on the Legality of the Financial Management of the Party LMP (Politics Can be Different) in 2009-2010 (1207)

Objectives and scope of the audit

The State Audit Office audited the legal compliance of LMP (Politics Can Be Different) party's 2009–2010 financial management based on legislative mandate, since the party receives regular budget support on the basis of its result in the first round of the 2010 parliamentary elections.

The purpose of the audit was to determine whether the annual reports drafted by the party and published in the Official Journal of Hungary and the party's website comply with statutory requirements and contain data consistent with bookkeeping and actual facts; whether they observed the provisions of the Act on Accounting and other legal regulations, and internal requirements; whether the party used funds available for use consistently with the rules for its operation and engaged in financial management activity permitted in the Act on Political Parties.

Main findings

Based on its officially published annual reports as amended, the party stated revenue of HUF 9.9 million in 2009 and HUF 279.4 million in 2010, 50.0% of which came from State budget support in 2010. The party disclosed the reports on its year 2009 and 2010 financial management in the Official Journal past the deadline of April 30 as stipulated in the Act on Political Parties, with a delay of one month and one week respectively. Following a self-check, the party published the amended 2010 report in issue 45/2011 of the Official Journal, before the SAO audit. The published reports did not reflect a true and fair view of financial management in either year due to material errors (comprehensive material errors impacted 99.2% of revenue and 52.6% of expenses in 2009, and 3.3% of revenue in 2010). Stating donation on a different row of the report and incorrectly in two cases resulted in a specific material error in 2009. The party corrected the errors detected for 2009 and 2010 by SAO, and published amended reports in issues 54 and 59/2011 of the Official Journal. The adjusted reports provide a true view of the party's revenues and expenditures in 2009 and 2010.

The party only had the full scope accounting regulations required as mandatory in the Act on Accounting in force as of 1 January 2010. This is because it did not draft an accounting policy with the associated regulations and accounts policy within 90 days of its being established. The accounting regulations that were issued failed to stipulate the general ledger accounts belonging to report rows in line with the annual report structure under the Act on Political Parties, did not designate the general ledger accounts associated with other revenues, operating expenses, asset purchasing, political activity and other expenses, and did not stipulate the appraisal and posting of in-kind asset contributions. A part of regulation errors is due to the fact that legislators did not produce an explanation or guidelines to the report template under Annex no. 1 to the Act on Political Parties; accordingly, it may be completed differently by each party, in line with the respective accounting policy they developed. The report template is not in harmony with the provisions of the Act on Accounting, and it does not comply with either balance sheet or profit/loss statement related requirements.

The fact that the principles of completeness, trueness and consistency – as well as form and substance related requirements for documenting as provided for in the Act on Accounting – were not asserted led to material errors in the reports.

The party's revenue increased from HUF 9.9 million in year 2009 to HUF 279.4 million by 2010. The reason behind was that it became eligible for state support, and saw an almost eightfold increase in loans and other contributions and donations. According to the party's accounting records, it did not accept any capital contributions from sources that are not permitted in the Act on Political Parties during the period in review. The party engaged solely in economic activity as authorised in the Act on Political Parties. It did not obtain any stake in business associations and did not purchase any prohibited securities.

In 2010, it employed staff as an entity exercising employer's rights on the basis of employment contracts that complied with regulations. Payroll accounting of salaries was done centrally. A travel expense account was provided according to internal regulations for employees and elected officials for the use of passenger vehicles owned for official purposes. Travel orders were used with the content stipulated in the Act on Personal Income Tax, and costs were accounted in an amount not subject to taxation. The party did not comply with the statutory requirements related to taxation and social security acting in its capacity of employer in the first half of 2010. It discharged its tax and contribution return and payment obligation related to retainers and disbursement obligations in default and incorrectly. The party resolved its tax and contribution arrears due at the end of 2010 until the end of September 2011 through self-audit. The party did not have records excluding phone use for private purposes for 2009 and the first half of 2010, and thus did not discharge its tax and contribution payment

obligations for private purpose phone use – which is considered as an in-kind benefit – under the Personal Income Tax Act and the Social Security Contribution Act respectively, but rectified this during the time of the audit.

It specified the internal auditing system from 20 November 2009 in regulations concerning the set of criteria related to the financial management of financial and regional organisations encompassing financial management at a nationwide level. Regional organisations drafted their respective regulations continuously from June 2010. Under these regulations, audits on the observation of provisions applicable to financial management are the duty of the Audit Committee, the director of finance and the regional elected committees. The Audit Committee performed its task specified in the statutes, in the scope of which it examined the budget proposed to the congress and the report on its implementation, and provided written comments thereon. It did not, however, detect the material errors discovered by the audit. The financial management control did not function because accounting and financial management regulations were drafted and entered into force after the deadline stipulated in the legal regulation.

Main recommendations

We recommended the Minister of Public Administration and Justice to initiate the amendment of the Act on Political Parties in the interest of the increased assertion of the transparency of party financing and the accountability of parties, having regard to resolving the contradictions existing between the Act on Political Parties and the Act on Accounting for years and affecting the system of parties' keeping of accounting records and reporting.

We called upon the person authorised to represent the party that he observe the statutory deadline for publishing the report in the future, amend the party's accounting regulations in line with its financial management characteristics, and assert accounting principles and documentation discipline.