



Summary

of the Audit on the On-site Review System of the Treasury for Claiming of and Accounting for State Subsidies and Contributions due to Local Governments and on Accounting for Normative Contributions due to Local Governments in 2010 (1208)

Objectives and scope of the audit

The objective of the audit was to assess whether the Treasury carried out the on-site review of application and accounting for state support and contribution effectively in 2008-2010, and whether the audited local governments claimed and accounted for normative contributions in compliance with legal regulations in 2010.

In order to assess, whether the review of account settlements had been carried out effectively, an audit was conducted at the Treasury's headquarters and 11 public finances offices in several counties. The accounting for normative contributions due to local governments in 2010 was audited at 47 local governments – that of seven towns and 40 villages – and auditing extended to cover all legal titles. Of the 47 audited local governments, the Treasury conducted on-site reviews at 45 in 2008-2010.

Main findings

Three of the nine criteria specified for the evaluation of the effectiveness of the Treasury's on-site review system by SAO in the audit program were met, three were partially implemented, and three were not fulfilled.

The stipulation of audit objectives in strategic audit plans, annual work plans, procedural rules and guidelines, the set-up and operation of internal controls was **implemented**, furthermore – in relation to state support and contributions – cases of wrongful use and accounting, as well as failures to account for legitimate claims were revealed.

Criteria applicable to creating rules required for performing reviews, to auditing on the basis of a standard set of criteria, and providing the necessary human resources were **partially fulfilled**. The partial lack of regulations and the end of year issuance of certain regulations did not serve the development of country-wide, uniform practice, and this resulted in incremental and parallel work for the

public finances offices. The human resources available at one of the 11 public finances offices included in the audit, the Budapest and Pest County Directorate, did not ensure the performance of tasks to the extent prescribed in the Act on Public Finances.

Requirements specified in the Act on Public Finances for local governments and legal titles to be audited as well as the method for selecting legal titles **were not fulfilled**. No indicators suitable for measuring the achievement of targets were developed. Therefore, the work of public finances offices in the interest of achieving targets cannot be compared. The absolute value of deviations at local governments covered by the Treasury's on-site reviews during the years 2008-2010 decreased gradually, along with the ratio of incorrect legal titles, partly because of the decreasing number of legal titles that were audited. However, the number and ratio, of local governments at which the Treasury revealed deviations during its on-site reviews increased.

Of the 47 local governments whose **accounting for normative contributions** in 2010 was audited, the accounting settlement was free of errors at seven, while a payment obligation was established at 16, and eligibility for supplementary support was discovered at 24. Sixty-two per cent (29 local governments) of accounting settlements were deemed reliable; 38% were not substantiated and reliable since the error rate thereof exceeded the 2% margin, and deviation calculated per legal title exceeded the rate of 5% in the case of one legal title. Accounting errors were caused by disregarding statutory requirements and inattention, and also exacerbated by the complexity of accounting.

Main recommendations

We recommended the President of the Treasury to provide for the issuance of on-site review criteria at a date prior to the start of on-site reviews so that, on such basis, review work can be performed along the lines of standard criteria. We recommended, furthermore, to provide for the completion of on-site review tasks at the scale stipulated in legislation concerning the Budapest and Pest County Directorate, and to investigate personal liability for review obligations that were not discharged in respect of the audited period. We also recommended the President of the Treasury commission to inquire who can be held personally liable for the lack of drafting central regulations on the procedural rules of selection for on-site review, its process, documentation and risk analysis for legal titles to be reviewed.