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SZÁMVEVŐSZÉK

**SUMMARY**  
**of the Audit on the Geological Institute of Hungary**  
**and the Eötvös Lóránd Geophysical Institute of**  
**Hungary (1296)**

**Objectives and scope of the audit**

The objective of the audit was to evaluate whether the reports on implementing the 2011 budget of the Geological Institute of Hungary (GIH) and of the Eötvös Lóránd Geophysical Institute of Hungary (ELGIH) presented a true and fair picture of their assets and financial position, whether the institutions had taken account of legislation when regulating their activities, whether they had established appropriate internal rules required to perform their tasks, and whether financial equilibrium was ensured in their budgets as well as in the implementation thereof. The audit covered the years 2007-2011.

**Main findings**

The 2011 financial statements of GIH and ELGIH were prepared in accordance with the provisions of the Act on Accounting and the government decree on the peculiarities of the reporting and book-keeping requirements applicable to general government organisations. The review of expenditure and revenue transactions did not reveal any error in terms of reliability, however deficiencies were found in regularity (e.g. appropriation records and subledgers were not fully compliant with legislation, and the opening figures of the budget report were not reliable). The accounting balance sheets in institutional financial statements — except for GIH's opening figures in 2011 — reflected a true and fair view of the assets and financial position of the budgetary institution. In the closing figures of tangible assets in GIH's accounting balance sheet of 2011, the audit revealed a discrepancy of HUF 5.7 million (0.1% of the balance sheet total) resulting from items written off to zero being increased upon receipt of certain assets. In our audit, we obtained sufficient and appropriate evidence that the data of expenditure and revenue transactions of GIH and ELGIH contained in the bill on the final accounts had been disclosed in accordance with the legislation applicable to fiscal management; therefore, the SAO issued an approving opinion on the 2011 budgetary statements of GIH and ELGIH, with an emphasis of matter paragraph.

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The fulfilment of tasks by the institutions was not sufficiently regulated. The Government Decree 267/2006 (XII.20.) on the Hungarian Office for Mining and Geology ('Statute Decree') effective as of 1 January 2007 provided that the institutions should participate in the fulfilment of tasks of the Hungarian Office for Mining and Geology (HOMG) in relation to public geological tasks but without stating how and to what extent they should do so. Tasks were further specified from 23 March 2010 at ELGIH and from 1 January 2011 at GIH upon modification of the Statute Decree, but as HOMG's background institutions, the tasks they were assigned in the audited years were identical or very similar to what they had previously done. Following the audited period, upon decision of the founding entity,<sup>1</sup> the two institutions have been performing public tasks related to geological resources under the name of Geological and Geophysical Institute of Hungary (GGIH) as a unified organisation since 1 April 2012.

In the years 2007-2011, the institutions possessed documents specifying public and other tasks, however the Operational and Organisational Rules were not updated, which was partly due to the fulfilment of tasks being insufficiently regulated. The tasks provided for in the deeds of foundation were not detailed in the Operational and Organisational Rules approved by the supervisory body, which is contrary to the provisions of the Government Decree on the Rules of Operation of Public Finances. GIH and ELGIH did not have any legally compliant Operational and Organisational Rules approved by the supervisory body until 12 May 2010 and 28 April 2011, respectively. Following these dates, the approved Operational and Organisational Rules of the institutions complied with the effective legal provisions.

ELGIH and GIH are independent budgetary institutions. Financial management tasks were performed by HOMG's Finance Department, whereas related task sharing and responsibilities were regulated by task sharing agreements. At the beginning (2007-2009), these agreements did not fully comply with the provisions of the Government Decree on the Rules of Operation of Public Finances, however the amended agreements regulated the activity of HOMG's economic enterprise with the content, in the form and at the level of detail required by legislation. ELGIH's powers as to financial management did not change during the years 2007-2011, whereas in 2010 GIH was granted the right to manage finances independently to perform its tasks.

In the period of HOMG's operation, the financial management of institutions was duly regulated. The rules of procedure of HOMG's economic enterprise for

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<sup>1</sup> GIH was merged into ELGIH according to a modification of the Statute Decree dated 1 April 2012.

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the years 2007-2011 were prepared in compliance with effective legislation; the rules of commitments, remittance, countersignature and endorsement were established, and HOMG prepared its accounting policy as well as related mandatory and other internal regulations pertaining to financial management, however these were not updated for the year 2011.

In 2010, GIH as a budgetary institution under independent operational and financial management had an independent economic enterprise, but in this period the institution's financial management was not sufficiently regulated to ensure proper financial management, as the institution did not provide for the structure and tasks of the economic enterprise in its Operational and Organisational Rules; it did not establish the rules of procedure of its economic enterprise, and the content of its accounting policy and related regulations did not fully comply with legal provisions.

In the audited period, budgetary equilibrium was ensured at both institutions. Personal allowances and contributions represented more than a half, and material costs a third of non-personnel expenses; more than 50% of expenses were financed by own revenue in the years 2007-2010. In budgets, the institutions did not provide for cost cuts to the extent their revenues decreased; therefore they both encountered liquidity problems from 2010, which they resolved in the same year by anticipated funding from the public budget.

GIH's liquidity in 2010 was adversely influenced by the fact that the EU grant available in its foreign exchange account was not transferred to the HUF account for nearly six months, and the project was financed from other resources. Furthermore, even in the case of revenue shortfalls, they did not review any contracts which allowed for payment within 180 working days from the invoice date, due to which there were no funds to cover monthly VAT payment obligations. For the unit prices of service activities performed by GIH, prime costs were determined without being backed by a prime cost calculation.

In assessing responsible financial management, we found several deficiencies and violations of the Act on Accounting in the years 2007-2011. At GIH, they resulted from scrapping, the write-off of bad debts and inventory shortage, whereas at both institutions from the improper separation of investments, renovations and maintenance, and from related errors in depreciation calculations. Thus, the net asset value in the institutions' financial statements was not correct in the years 2007-2011.

In the audited period, internal controls did not function properly at the institutions. When paying expenses, HOMG, GIH and — in the years 2007-2009 — ELGIH failed to comply with the rules pertaining to financial management. At

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GIH, there was no countersignature of commitments, endorsement, remittance or countersignature of vouchers for 15.7% of supporting documents. At ELGIH, the countersignature of commitments, the attestation of professional performance or the endorsement was missing for 14.3% of supporting documents.

In 2007, the institutions did not take any steps to organise and operate internal control. In the years 2008-2011, internal control was provided by an external service provider, but such control was exercised only from 2010 to a level to be able to increase the regularity of financial management, to reduce internal risks and to support the operation of the control system.

### **Recommendations**

We recommended the President of the Hungarian Office for Mining and Geology to ensure that the regulations of HOMG and associated independent institutions related to financial management be updated in accordance with legislative changes.

We recommended the President of the Hungarian Office for Mining and Geology and the Director of the Geological and Geophysical Institute of Hungary to ensure that the persons authorised to manage finances comply with the provisions of Art. 53-60 of Government Decree no. 292/2009 (XII. 19.) on the Operational Rules of Public Finances, recognise software development in accounting records among intangible assets, and record property rights related to real estate in subledgers following consultation with land registries. In addition, they should review the rules of prime cost calculation and determine unit prices for each service on the basis of actual prime costs. They should ensure that revenues and expenditures are allocated to specialised tasks in line with the provisions of Annex 9 of the Government Decree on Peculiarities of the General Government Organisations' Reporting and Public Accounting Rules.