



ÁLLAMI
SZÁMVEVŐSZÉK

SUMMARY

**of the Audit on the Regularity of the Operation of the National
Bank of Hungary and the Accounts Made in Relation to the
Central Budget (13011)**

Objectives and scope of the audit

The State Audit Office of Hungary (SAO) audited the operation of the National Bank of Hungary (NBH) and the regularity of accounts made in relation to the central budget on the basis of legislative mandate. SAO evaluated whether between 2011 and the first half of 2012 the operation of the management, decision-making and audit systems of NBH was in compliance with legal regulations, the Deed of Foundation and the decisions of the Minister of National Economy exercising the shareholder's rights.

Furthermore, the audit objective was to assess the regularity of the financial management of the operation, as well as the observance of cost-efficiency aspects of NBH in 2011. The audit covered the exercise of proprietary rights over Hungarian Banknote Printing Shareholding Company and Hungarian Mint Ltd., entirely owned by NBH, between 2007 and 2011, the regularity of accounts in relation to the central budget, as well as the utilisation of the recommendations of the last year's SAO audit.

Main findings

The operation of the management, decision-making and audit system of NBH in 2011 and the first half 2012 was essentially in compliance with the effective legal provisions, the Deed of Foundation and the decisions of the Minister of National Economy exercising the shareholder's rights.

The operation of NBH was not lawful from two aspects. The document management system of NBH between 2009 and December 2012 was not in compliance with the legal provisions applicable to document management. The document management software of the central bank had not been certified as stipulated by law.

NBH transmitted data considered as business secrets for IMF - violating the provisions of the act on credit institutions -, exceeding its mandate and without authorisation, about credits drawn by the Hungarian state from international organisations.

The accounting of adjustment reserves affecting the budgetary relations was in compliance with the internal regulations within NBH. However, the Ministry of National Economy as the ministry responsible for public finances did not carry out any arithmetic or other audits concerning the accounting and payment of adjustment reserves. In 2007 and 2010, the central budget was obliged to pay a total of HUF 31.9 billion for the central bank, according to the effective legal provisions. The legislative change stipulating the pooling of adjustment reserves, effective as of 2011, was expedient, as it reduces the risk that an obligation of the central budget to pay to NBH arises. (The consolidated balance between 2007 and 2011 was positive every year.)

The legislative environment stipulating the operation of the business associations entirely owned by NBH is neither clear, nor complete, as the two business associations performing activities under state monopoly and of strategic importance are not considered as priority national

property in terms of national economy. The property management tasks of NBH related to the business associations are not clear. Among others it is not defined whether the business associations can perform so called market-oriented tasks besides those related to the activity of the central bank. NBH determined its ownership position and the development of affiliated companies in conformity with the introduction of the euro in Hungary, however by cancelling the euro target date it did not revise its strategy concerning the Hungarian Banknote Printing Shareholding Company (HBPSC). The central bank drew the profit of the company (a total of HUF 5.8 billion between 2006 and 2011) as dividend every year, which might endanger the long-term operation of HBPSC and the secure issue of banknotes.

The operating cost of the central bank in 2011 was HUF 11.9 billion, which decreased both in comparison with last year's data and the planned costs, in total and by cost types. The lower cost level resulted also from the staff number lower than planned, the cost-reducing measures and from the fact that several planned investments were not implemented. (54.1% of the planned investments, within which 28.4% of the IT investments above HUF 30 million were carried out.) Cost reductions can be attributed partly to the inadequate accounting settlements, which were not revealed by the management control.

Cost-effective financial management is not supported by the efficiency indicators proportional to the headcount. Furthermore, the level of remunerations (basic salary, bonus, allowances) is above the average level in commercial banks. Besides the wage development of 4.3% in 2011, the amount of bonus paid above the basic salary did not change, while it decreased in domestic commercial banks by 18% already in 2010. Cafeteria allowance is twice as much as the amount in commercial banks.

According to the effective accounting rules and the legal provisions applicable to NBH, the error of a considerable amount of 2%, affecting the financial statements of NBH applies to the balance sheet total (HUF 12,000 billion). Therefore, NBH must have committed an error amounting to nearly HUF 250 billion which could have affected (limited) the qualification of the financial statements thereof in a negative way, while the actual operating costs and expenditures amounted only to HUF 12 billion. The relevant government decree does not ensure the responsible public financial management and accounting.

Recommendations

Based on the audit findings, we recommended the Minister of National Economy to take measures for the review of the accounts made between the Hungarian State and the central bank concerning adjustment reserves, and to initiate the amendment of the government decree concerning the accounting of NBH in order to ensure that the extent of the error of a considerable amount, stipulated in the Act on Accounting be applied to the operating costs and expenditure of NBH as a company separately from the central bank activities. Furthermore, we recommended the Minister to initiate the review of the legislative environment of HBPSC and the Hungarian Mint Ltd.

We recommended the Governor of NBH to provide for the establishment of responsibilities; for the preparation of substantiated and feasible investment plans in the course of financial planning and financial management processes; for the comprehensive measurement of the utilisation of internal resources related to IT developments, as well as for the full observance of accounting rules. Furthermore, we recommended him to revise the strategy and dividend policy of NBH related to HBPSC in order to ensure the secure production of the quantity of banknotes necessary in the country and the reduction of risks, as well as to take measures for the establishment of

responsibilities related to data provision without authorisation, for the detection of the reasons for liability and the correction of the procedural inadequacy.