



ÁLLAMI
SZÁMVEVŐSZÉK

FOLLOW-UP AUDIT ON THE FINANCIAL MANAGEMENT SITUATION OF 62 TOWNS

Summary for the press
of the follow-up audit on the situation and regularity of the financial management of local
governments in 62 towns audited in 2011
(14224)

The State Audit Office of Hungary (SAO) completed a follow-up audit on local governments, examining changes that took place at them since 2011. Since the entry into force of the new Act on the SAO this was the first time that an audit task was implemented solely as a follow-up audit. In the course of the audit the SAO evaluated the implementation of the action plans developed by the 62 town halls selected on the basis of representative sampling and examined in the course of a financial audit. The SAO's analysis, which is of a new type and is based on a holistic approach, drew the lesson on the local government sector as a whole that the implementation of the action plans contributed to creating the basis for sustainable financial stability.

Taking into account the financial management difficulties of the local government sector, the increase in the budget deficit and debt of this sector, in 2011 the SAO examined the financial position of 62 towns, each selected on the basis of representative sampling. In order to make use of the recommendations included in the SAO's relevant audit reports, the concerned local governments prepared their respective action plans in fulfilment of their statutory duty.

The goal of the follow-up audit was to establish whether the audited local governments implemented the tasks aimed at restoring the balanced state of their respective budget, as stipulated in the respective actions plans submitted to and approved by the SAO. The audit covered the period from the SAO's approval of the action plan to the start of the follow-up audit.

Considering the risks detected by the original audits conducted in 2011, the SAO drew the attention first of all to the necessity of actions which exert their influence in the medium- and long-term, help restore or improve the balanced state of the budget of the audited local governments, and promote their responsible financial management as well as the long-term preservation of their financial stability. Separate audit reports were prepared on each of the 62 towns in 2011. In response to a total of 593 recommendations included in these audit reports, the audited towns prepared action plans for the SAO for approval. The action plans provided for the future performance of altogether 665 tasks. The SAO's follow-up audit found that the towns had already carried out in the period lapsed partly or fully 77 per cent of the actions which were required for the implementation of the SAO's recommendations and became opportune.

As a result of the corrective actions implemented by the local governments, an improvement took place in the awareness, purposefulness and 'discipline' of the economic management activities of the local governments. The SAO's analysis of local governments' budget reports showed that there was generally a favourable change from 2011 to 2013 in several fields, that is, the operating balance increased and liabilities decreased. In context of achieving a balance between operating income and expenses, the role and importance of the central government's supplementary financial subsidies decreased. In addition, the risk arising from exposure to

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suppliers diminished due to the decrease in expired supplier liabilities and the favourable developments in the expiry data of expired liabilities.

Based on the conclusions drawn from the findings of the follow-up audit, one can say that improvement took place in the conditions for a long-term sustainability of financial stability, due to the joint result of local and central government measures. With the implementation of the local governments' action plans, the planning, funding and sustainability of their development activities became better controlled.

Implementation of the tasks stated in the action plans

Risk categories (assignment on the basis of the balanced budget) (on the basis of the 2011 audit)	Number of cities in the risk category	Number of tasks stated in the action plan and considered opportune	Based on the follow-up audit, the number of		
			Implemented tasks	Partly implemented tasks	Not delivered tasks
short-term	31	400	222	72	106
medium term	15	130	78	26	26
long term	16	78	59	12	7
Number of audited towns:	62	608	359	110	139

The 2011 audits assigned the tasks to risk categories on the basis of whether short-, medium- or long-term actions were required to restore a balanced state of the budget of the given local government.

A task is considered opportune, if its implementation is justified in order to restore or sustain a balanced budgetary situation, even if operational conditions of the given local government eventually had changed.

A task is considered as implemented if it is implemented in a documented way and with the content stated in the action plan which was accepted by the SAO. The task is partly implemented, if the implementation does not align to the content stated in the action plan or the frequency of the task, activity does not align to the frequency stated in the action plan. The task is not implemented, if the city failed to implement it, or failed to document the implementation.