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OF

MUNICIPALITIES - LARGE VILLAGES

Summary for the press

Financial-monitoring-based audit of municipalities – sustainability of the financial management of the local governments of large villages (18081)

The State Audit Office of Hungary audited the sustainability of the financial management of 132 local governments between 2014-2015 and evaluated the risks of their financial management. The audit performed on the basis of the financial monitoring of local governments found that the sustainability of the financial management of the local governments of large villages was ensured; there was no risk of accumulating excessive debt.

The audit of financial management of municipalities is a statutory duty of the State Audit Office of Hungary; its strategic objective is the evaluation of the financial and economic situation of local governments and the detection of risks. The SAO carried out several hundred audits at local governments in recent years, contributing, among others, to the in-depth charting of the causes that triggered the accumulation of critically high debts at the municipalities by 2010, as well as to the fact-based detection of the risks endangering the functioning of the whole subsystem.

Within the framework of the new task-based system of financing, introduced in 2013, close attention has to be paid to the attainment and long-term sustainability of financial equilibrium in the subsystem of municipalities. That is why revealing the risks affecting the financial equilibrium of local governments as well as presenting the associated processes and trends are of outstanding importance.

In the interest of its implementation, the SAO worked out a risk-monitoring system for local governments, in the framework of which it performed several pilot audits based on the financial monitoring system of local governments. Within the framework of this audit, the SAO evaluated the ensured financial equilibrium of 132 large villages, the preservation of the value of assets in their financial management, as well as the prevalence of the risk of accumulating excessive debt based on indicators.

The SAO audit found that the financing structure of the tasks and accumulations of the evaluated 132 large villages ensured the sustainability of the financial management of local governments in 2014 and 2015. The financial and property management ensured the performance of tasks of local governments of large villages, set out in the act: the financing structure of the performed tasks did not present a source of risk, and the operational revenue covered the operational expenditures. The SAO found however that the local governments spent operational sources for the financing of expenditures for cumulative purposes (such as investments). Financial risks did not increase, since the funds for the implementation of the debt service (such as loans) were available from the operational revenue. According to the audit of the SAO, a standard task performance and financial management of the local governments does not entail any risks.

After the debt consolidation in 2012-2013, the audit suggested that there was no risk of re-indebtedness at the local governments of large villages, and the financial position developed favorably. The financial risk decreased due to the termination of the guarantee and warranty obligation. The volume of liabilities towards suppliers also decreased.

The financial management of local governments of large villages affected by the audit ensured the preservation of the value of the assets, since the state property of the local governments increased, and the replacement of assets was ensured. The number and volume of liabilities of majority owned business associations slightly increased.

The risk assessment related to the financial situation, state property and indebtedness of local governments of large villages showed that the financial equilibrium of such local governments was balanced in the audited period. Risks identified in the field of property management do not necessitate immediate and system-level remedy. However, based on the audit findings, risks arising from the increase of the volume of liabilities of majority-owned business associations, and obligations related to the maintenance of state property shall be remedied in the medium term.