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## THE AUDIT OF THE SUSTAINABILITY OF THE FINANCIAL MANAGEMENT OF TOWNS

Summary for the Press

Financial-monitoring-based audit of local governments – sustainability of the financial management of city local governments (19017)

**The State Audit Office of Hungary audited the sustainability of the financial management of 322 city local governments between 2015-2016 and evaluated the risks associated to their financial management. The audit based on the data of the annual statements of local governments for 2015-2016 has determined that in the case of the city local governments concerned the financial equilibrium and the preservation of the value of the state property were ensured, and the financial management was stable. The SAO has identified risks concerning the growth rate of long-term liabilities of financial institutions, the increase in overdue liabilities and the loss-making operation of business associations.**

The debt accumulated by the local governments of Hungarian municipalities between 2002 and 2008 were consolidated by the government between 2011 and 2014 in several stages. As a result of the consolidation of debts, the task performance of local governments was restructured, their financial equilibrium was restored at a systemic level. However, the SAO continues to pay particular attention to the monitoring of risks affecting the financial equilibrium of local governments, processes causing financial vulnerability, and system integrity risks affecting the local governmental subsystem.

Utilising the data of annual financial statement submitted by local governments and available via the central information system of the Hungarian State Treasury, the SAO, through the evaluation of monitoring reports, contributes to the exploration of risk areas requiring intervention of different levels in order to ensure the financial equilibrium of local governments.

Within the framework of this audit, the State Audit Office of Hungary evaluated the risks of over-indebtedness of a total of 322 city local governments operating in Hungary, as well as the guarantee of the sustainability of their property management and the preservation of the property's value in the course of financial management.

The number of permanent residents in the 322 city local governments was 3.3 million on 1 January 2016. The population of 202 towns was under 10,000, the population of 84 towns ranged between 10,000 and 20,000, and 36 of them had a population of over 20,000 on 1 January 2016. In 2016, the operating expenditure per permanent resident constituted an amount of 162 thousand HUF, while the local tax revenue per permanent resident was 69 thousand HUF. 221 city local governments (68.6%) had a majority-owned business association in 2016. The number of majority-owned business associations was 590 in 2016.

The SAO has determined that the financial management of city local governments showed a stable picture during the period audited. The audit has revealed that out of the audited 322 city local governments, there was a risk of debt settlement proceedings being initiated at 19 town local governments (Ajak, Bátorfyerénye, Heves, Kalocsa, Komárom, Kondoros, Körmend, Mándok, Mátészalka, Mindszent, Nagyecsed, Nagymányok, Ózd, Püspökladány, Rakamaz, Szendrő, Hajdúnánás, Lenti, Nagyatád), which also carried a high risk in terms of task performance.

The evaluation of the risks to the financial position, assets and over-indebtedness of city local governments pointed out that the financial management of town local governments in Hungary was stable, and did not require a system-level intervention.

However, the SAO's audit also pointed out that maintaining the financial management of town local governments without any alterations carries a risk in terms of the financial equilibrium, thereby also of local governments becoming over-indebted. The SAO's audit showed that although the operating income provided coverage for the negative balance of the cumulative budget and capital repayment, the growth in the repayment of external resources, the financing of started developments and the emergence of maintenance costs arising from them constitute a source of risk for the over-indebtedness of city local governments; therefore, the management of these risks requires special attention.

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The State Audit Office of Hungary underlines that based on the audit findings, city local governments have preserved the value of property, however, the risks arising from the increase of the volume of liabilities of majority-owned business associations should be remedied in the medium term.