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AUDIT ON THE SUSTAINABILITY OF THE FINANCIAL MANAGEMENT OF VILLAGE MUNICIPALITIES OF COMMON MUNICIPAL OFFICE SEAT CONSISTING OF FIVE OR MORE LOCAL GOVERNMENTS, A TOTAL OF 144 LOCAL GOVERNMENTS

Summary for the Press on the audit entitled 'Audit of Local Governments based on financial monitoring – Audit on the sustainability of the financial management of village local governments of common municipal office seats consisting of five or more local governments, a total of 144 local governments' (19247)

The State Audit Office of Hungary audited the sustainability of the financial management of 144 village local governments, which are the seats of a common municipal office consisting of five or more local governments, between 2016-2017 and evaluated the risks of their financial management. The audit based on the data of the local governments' annual statements and risk assessment determined that the financial balance of local governments is sustainable without a significant change in the tasks and the conditions of financial management, and does not require any system-level intervention. There is no system-level risk of indebtedness. However, efforts must be made in order to preserve the assets.

The debt accumulated by the local governments of Hungarian municipalities between 2002 and 2008 were consolidated by the government between 2011 and 2014. As result of the consolidation of debts, the task performance of local governments was restructured, their financial status was restored at a systemic level. However, due to the hazards resulting from the financial management of local governments, 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 so that the results of consolidation can be sustained in the long term as well.

Utilising the data of annual financial statements submitted by local governments and available via the central information system of the Hungarian State Treasury, the SAO, through the evaluation of monitoring reports conducted in the area of the financial and asset management and indebtedness of local governments, has contributed to the identification of risk areas requiring system-level or individual intervention in order to ensure the sustainability of the financial equilibrium of local governments.

The 144 municipalities audited had more than 141 thousand residents in 2017, and each of the common offices of these local governments carried out the tasks of 5 to 13 municipalities. Based on the data of the annual statements of the local governments in years 2016 and 2017, the audit of the State Audit Office of Hungary established that the financial management of the 144 village local governments audited was stable, their financial equilibrium was ensured, their balance sheet assets increased, however, the asset replacement of tangible assets was not ensured. Following debt consolidation, the sustainability of the financial management of local governments was ensured.

The audit identified the risks of financial management, indebtedness and asset management concerning 2017 at the level of individual local governments as well. The SAO sent a warning letter to a total of 69 municipalities, with an overall population of nearly 72 thousand people, specifying therein the risk areas.

Considering the weight of the risks identified at the level of local governments, in 2017 two local governments (Krasznokvajda and Lukácsháza) received an unsatisfactory grade due to accounts payable exceeding 90 days, and in the case of the local government of Lukácsháza, there was also a risk of a debt settlement procedure. In the case of these local governments, the management of the identified risk requires immediate liquidity management measures, because the existence of the said risk threatens the task performance of the local government.

In terms of the identified risks 39 local governments received a satisfactory grade. In their case, there was an operational imbalance as the local governments in question spent more than their revenues; therefore, the sustainability of the performance of the local government's tasks was also at risk. 103 local governments received a fair grade, or higher: in the case of their majority the audit did not find any material risk threatening financial equilibrium.

The local governments that received a warning letter due to specific risks must evaluate the risks in terms of the year 2019, in consideration of the changes occurred in 2018-2019, and they must take the necessary actions based on the evaluation.

The State Audit Office of Hungary, as the supreme financial and economic audit institution of the Hungarian National Assembly, is an independent fundamental institution of the democratic institutional system. Its mission is to promote the transparency of public funds through value creating audits, performed on a solid professional basis, thus contributing to a 'well-managed state'. Through its recommendations, the SAO promotes the regular, economical, efficient and effective use and utilisation of public funds.