

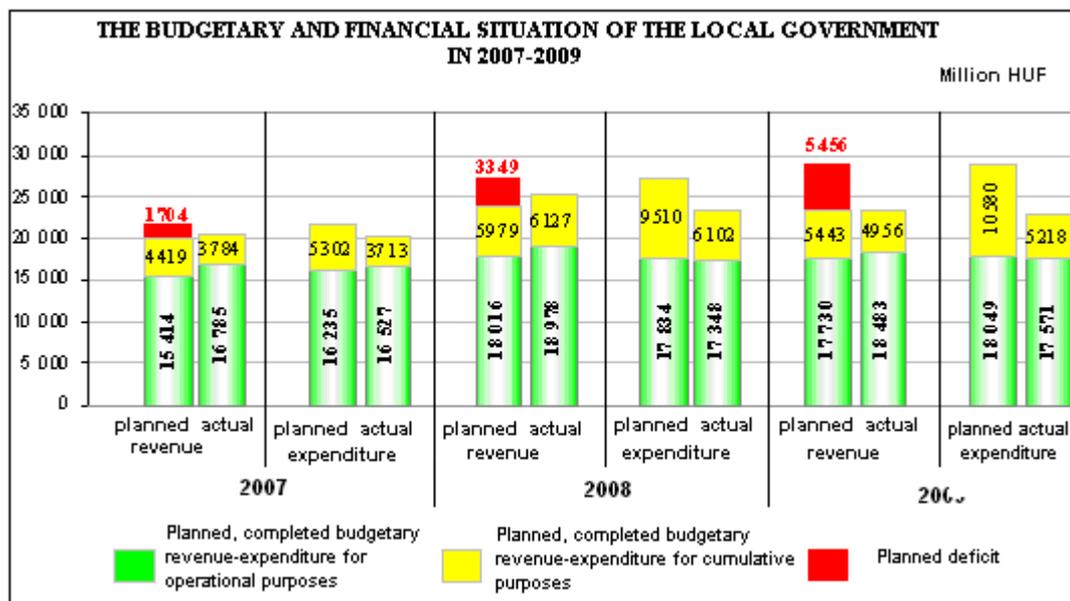


## Summary

### of the Audit on the Financial Management System of the Local Government of Town Kaposvár with County Status (1026)

Since 2003, the State Audit Office of Hungary (SAO) has been auditing the financial management system of local governments of counties, towns with county status, districts of the capital city of Budapest and towns, in alignment with the municipal elections once in a four-year cycle, according to a uniform national programme. The first such audit of the Local Government of the town Kaposvár with county status took place in 2005 and now the SAO completed its audit of the four-year period 2007-2010.

On 1 January 2010, the number of inhabitants of Kaposvár with county status was 66,969. Eight standing committees assisted the work of the 28-member General Assembly of the Local Government. In 2009, primarily its 33 budgetary institutions and 12 economic enterprises participated in the implementation of the tasks of the Local Government. According to the accounting balance, at the end of 2009 the Local Government had assets worth HUF 67,943 million. The following chart shows the development of the budgetary revenues and expenditures of the Local Government:



**The objective of the audit was to evaluate** how the Local Government ensured the budgetary and financial balance in its budget and in the course of

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the implementation of its budget; whether the importance of the fiscal transactions aimed at financing changed in respect of covering the missing revenue resources; whether the Local Government was effective in respect of regularity and organisation in its preparation for the claiming and utilisation of EU resources; whether it implemented and operated the supported objective; furthermore, whether it ensured the conditions of electronic public services and the publicity of the financial management by making management data accessible; as well as whether in 2009, the Local Government established and reliably operated the internal controls of financial management; whether financial management control and internal control contributed to the regular completion of the tasks. Based on an ex-post audit the SAO evaluated whether the Local Government had appropriately utilized the findings, and the recommendations concerning regularity and expediency, made by the SAO in the past four years.

### **Main findings of the audit**

The Local Government did not ensure the balance in its regulations on the budgets for 2007–2010; the planned budgetary revenues did not cover the budgetary expenditures. In the course of the execution of the budgets of 2007–2009 the **financial balance** was ensured, and there was a financial surplus. The Local Government borrowed current account credit at an annually decreasing rate, in order to continuously ensure their solvency. The financial situation of the Local Government altogether showed unfavourable tendency due to the increase of its indebtedness – arising from the borrowing of long-term credit for development purposes and bond issue – and to the weakening of its solvency.

In the period of 2007–2009, in respect of internal regulation and organisation, the Local Government successfully prepared for the claiming and utilisation of EU resources.

The County Clerk met its **disclosure obligation**, according to the regulations, to post data of public interest related to financial management on the website of the Local Government.

In the Mayor's Office, the regulation of the budget planning and final accounts preparation processes represented low risk in the course of the appropriate and regular implementation of the tasks; **the adequateness of the functioning of internal controls** established was excellent. The regulation of the tasks related to financial management, financial-accounting and financial management control altogether represented low risk in the adequate and regular implementation of the tasks. In the course of the payments, the adequate

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functioning of established internal controls, of the attestation of professional performance, and of the countersignature of payment orders was weak. The reason for the above is that the expenditures relating to the transfer of operational and accumulation funds granted outside of public finances were not controlled with respect to eligibility and numerical correctness, and no objection was raised against this deficiency by the counter-signer of the payment orders either. In addition, the persons responsible for verifying the implementation of those tasks, which are included in contracts and orders of services, did not verify the control of the expenditures with respect to eligibility and numerical correctness, previous to the fulfilment of payments related to the commission fees of those not being permanent staff members, and to the maintenance and smaller repair services performed by external service providers. In the course of the SAO audit, the County Clerk took measures in order to remedy this deficiency.

The establishment and regulation of the organisation framework of the **internal audit** represented altogether low risk in the appropriate and regular implementation of the internal audit tasks; the adequateness of the operation of the established controls was altogether excellent. The method of performing the internal audit was in line with the legal requirements; the audits included in the annual audit plans were implemented.

### **The implementation of former recommendations**

Out of the recommendations made by the SAO in the course of the 2005 comprehensive audit of the financial management of the Local Government, the audit on the accounting of the normative state contributions of 2005, the audit on the 2005 subsidies for accumulation purposes, provided for investments and reconstructions of the Local Government, the audit on the utilisation of the funds spent for the vocational school development programme, and the audit on the utilisation of the funds spent for the establishment and development of emergency medical services, 81% were implemented, and 19% were not implemented.

The recommendations made in the auditors' report were implemented by taking measures in the course of the on-site audit. Taking into account the increase of the indebtedness of the Local Government, the SAO recommended the County Clerk to inform the General Assembly, based on annual calculations, on the circumstances under which the Local Government can fulfil its obligation regarding payments and reimbursements arising from its long-term commitments generating debt. The SAO recommended the Mayor to inform the General Assembly on the audit findings, and facilitate the implementation of the recommendations.