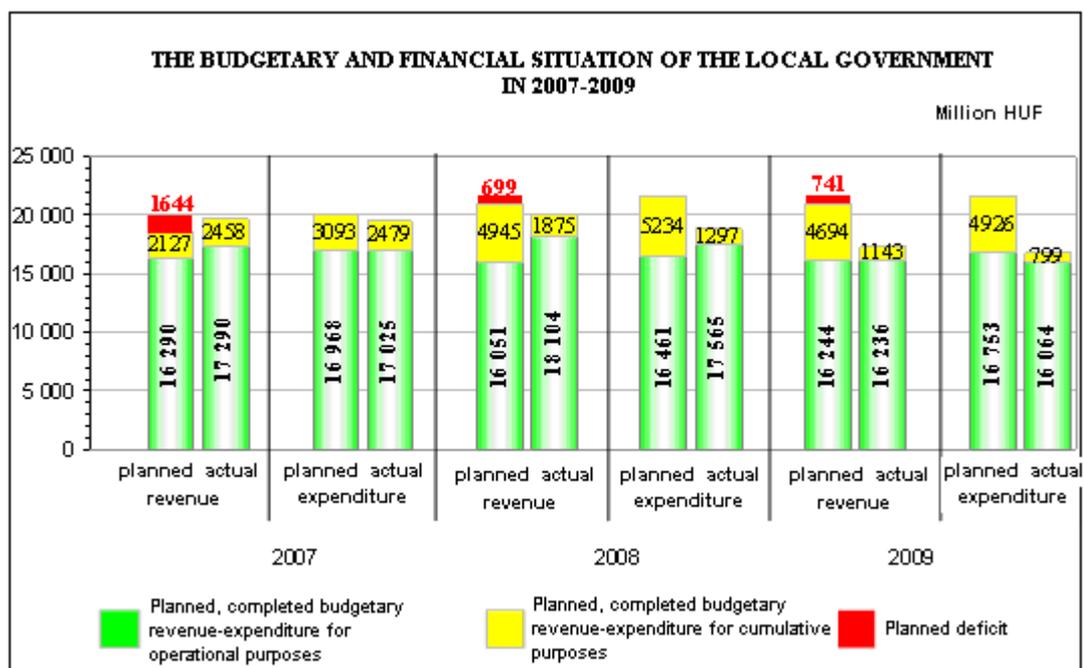




**ÁLLAMI
SZÁMVEVŐSZÉK****Summary
of the Audit on the Financial Management System of
the Local Government of Zala County (1028)**

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

On 1 January 2010 the population of Zala county (without the inhabitants of two towns with county status) was 181,908. Seven standing committees assisted the work of the Local Government's 40-member General Assembly. In 2009, it was the 25 budgetary institutions and four economic enterprises of the Local Government that participated in the implementation of their tasks. According to the accounting balance, at the end of 2009 the Local Government had assets worth HUF 18,095 million. The following chart shows the trend of the Local Government's budgetary revenues and expenditures:



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 the implementation of its budget; whether the importance of the fiscal transactions aimed at financing changed in respect of the replacement of the missing revenue sources; whether the Local Government was effective in its preparation for the claiming and the utilisation of EU funds, in respect of regularity and organization; whether it implemented and operated the supported priority; furthermore, whether it ensured the conditions of electronic public services, the publicity of the financial management by making management data accessible; and whether in 2009 the Local Government established and reliably operated the internal controls of the financial management; whether financial management control and internal audit contributed to the regular completion of the tasks. By means of a follow-up audit it was evaluated, whether the Local Government had appropriately utilised the findings and recommendations concerning regularity and expediency made by the State Audit Office of Hungary in the past four years.

Main findings

Between 2007 and 2009, the **financial equilibrium** was ensured every year in the course of budget implementation; the budgetary revenues exceeded the actual budgetary expenditures by HUF 244 million in 2007, by HUF 1,117 million in 2008 and by HUF 516 million in 2009. In 2007, in order to grant their own resources to the expenses related to development tasks accomplished by tender applications, to consolidate their credit portfolio and to finance their operational expenditures, the Local Government issued floating rate Swiss francs-based bonds worth HUF 3,057 million for a term of 20 years. From the income of the bond issuance HUF 908 million was utilised for the purposes planned until the end of August 2010. The rest – in several instalments – was placed into a series of fixed short-term deposits; moreover, in 2009 government bonds were bought. The revenue resulting from the bond issuance deposited at the end of 2007 and 2008 was not accounted for as revenue from a transaction of funding purposes but – in harmony with the accounting standards – as part of the budgetary revenues, that is, as the utilisation of the preceding year's residue, when the deficit of the budget of 2008 and 2009 was estimated. Between 2007 and 2009 the Local Government borrowed a total of HUF 820 million floating rate long-term credit for development purposes, while in order to continuously ensure their solvency, a current account credit was also borrowed, whose amount kept growing year by year. The amount not repaid thereof equalled HUF 335 million at the end of 2007 and increased to HUF 421 million by the end 2009. The overall financial situation of the Local Government worsened due to its emerging indebtedness –

generated by the long-term credits for development purposes and bond issuance – and to its weakening solvency.

In terms of internal regulation and organisation, between 2007 and 2009, the Local Government effectively prepared for the claiming and the utilisation of the funds of the European Union.

The County Clerk met their **obligation to disclose** data of public interest on the Local Government's website, in harmony with the requirements.

The deficiencies regarding the regulation of the processes related to budgeting and the preparation of final accounts – eliminated by the County Clerk in April 2010 – represented medium risk at the Local Government in terms of the appropriate and regular performance of tasks, the adequacy of the operation of the established **internal controls** was appropriate. The regulation of tasks related to financial management, financial accounting and financial management control represented medium risk in the appropriate and regular implementation of the tasks. In the case of payments related to budgetary expenditures, the adequacy of the practice of attesting professional performance as well as that of the counter-signature of payment orders was excellent, as before the disbursement took place the persons assigned verified the eligibility and numerical correctness of the expenditures and the fulfilment of the contracts and orders. Moreover, the counter-signers of the payment orders ascertained that the rules governing financial management, as well as those of the issuance of the attestation of performance and justification had been respected.

The organisational set-up of the **internal audit** function and the regulation thereof represented altogether low risk in terms of the appropriate and regular performance of internal audit tasks. The adequacy of operation of the established controls was altogether excellent. The practice of internal auditing met the legal provisions, the audits included in the annual audit plans were carried out at the budgetary institutions.

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 of the claiming and settlement of the normative state contributions of 2005; the audit of the subsidies for cumulative purposes granted between 2005 and 2007 for the Local Government's investment and reconstruction activities; the audit of the effectiveness of the utilization of financial resources spent on the Vocational School Development Programme; as well as the audit of the funds utilised for the organisation of the binding national referendum held on 9 March

2008, 72% were implemented, 5% were partially implemented, 23% were neglected.

Apart from the findings of the on-site audit SAO recommended the County Clerk to take measures in order to implement the so far neglected recommendations of the previous SAO audits regarding regularity and expediency. A significant part of these recommendations were implemented during the audit. SAO recommended the County Clerk to prepare a liquidity concept and – based on yearly calculations – to inform the General Assembly about the circumstances under which the Local Government can fulfil its obligations regarding payments and reimbursements arising from its long term commitments resulting in debts. Furthermore, the SAO recommended that the Chairman of the General Assembly should inform the General Assembly about the audit findings and provide assistance with the implementation of the recommendations.