



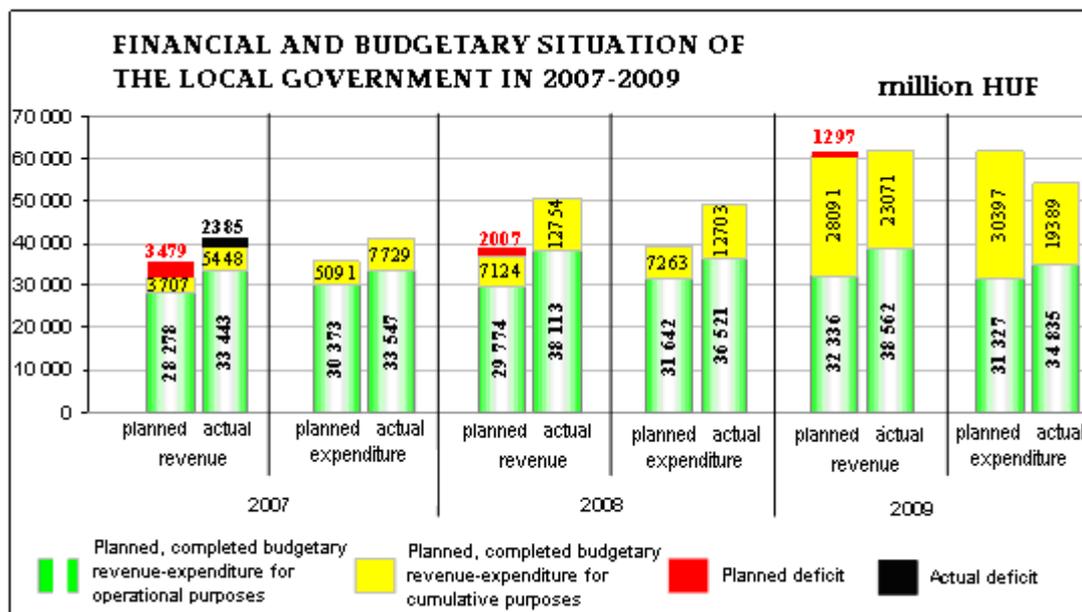
## Summary

### of the Audit on the Financial Management System of the Local Government of Town Pécs with County Status (1029)

#### Objective and scope of the audit

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 Pécs town 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 population of the town was 153,969. The work of the Local Government's 40-member General Assembly was assisted by nine standing committees. In 2009 it was mainly the 46 budgetary institutions and 31 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 162,795 million. The following chart shows the trend of the Local Government's revenues and expenditures:



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The purpose 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 thereof; whether the importance of the fiscal transactions aimed at financing changed in respect of the replacement of the missing revenue sources; if the Local Government was effective in its preparation for the claiming and the utilisation of EU funds, in respect of regularity and organisation; if it had implemented and operated the supported priority; furthermore, whether it ensured the conditions of electronic public services, the publicity of the financial management by making data of the management accessible; if in 2009 the Local Government established and reliably operated the internal controls of the financial management; if financial management control and internal audit contributed to the regular completion of the tasks. Based on an ex-post 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. Upon notification SAO audited the regularity of certain decisions related to the property management of the Local Government.

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

In the course of implementing their budget for 2007, the Local Government did not ensure the financial balance as the actual budgetary revenues for operational purposes fell HUF 104 million short of the actual budgetary expenditures for operational purposes and the actual budgetary expenditures for cumulative purposes exceeded the budgetary revenues for cumulative purposes by HUF 2,281 million. In the years 2008-2009 a financial surplus was realised as the actual budgetary revenues exceeded the actual budgetary expenditures by HUF 1,643 million in 2008 and by HUF 7,409 million in 2009. The amount not utilised in 2008 (HUF 6,838 million) of the HUF 9,129 million drawn in 2008 from the euro-based credit granted by the European Investment Bank was indicated as part of the year-end residue; in the following year the amount utilised from this residue was not accounted for as revenue from a transaction of funding purposes, but – in compliance with accounting standards – as budgetary revenue. In order to improve the budgetary equilibrium, the Local Government borrowed various credits, issued bonds and took measures in order to reduce the deficit. In the years 2007-2009 the Local Government borrowed long term credits worth HUF 16,327 million, HUF 4,000 million thereof being fixed rate and HUF 12,327 million being floating rate credits. Out of the revenues resulting from the floating rate bonds worth HUF 6,000 million issued in Swiss francs in 2008 for a term of 20 years, in 2008 HUF 2,000 million was utilised to repay credits withdrawn previously for operational purposes (cash credit) and HUF 4,000 million was used for cumulative purposes. The outstanding total debt of the Local Government is

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significant, at the end of 2009 short-term and long-term liabilities totalled HUF 34.1 billion.

In terms of internal regulation and organisation, in the period 2007-2009 the Local Government successfully prepared for the claiming and the utilisation of the funds of the European Union.

The County Clerk did not fulfil their obligation to disclose financial management data of public interest in compliance with the requirements; moreover, they did not disclose approximately one third of the subsidies granted by the Local Government for special, operational and cumulative purposes.

The deficiencies in the regulation of the budgeting process and the preparation of the final accounts represented high risk in terms of the appropriate performance of tasks, since in the process of budgeting and preparing the final accounts the County Clerk did not specify the internal control functions and did not elaborate the controls. In the process of budgeting and preparing the final accounts – due to the lack of regulation concerning audit tasks – the adequacy of the operation of internal controls was weak. The deficiencies in 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 2009, in the course of disbursements related to the transfer of funds outside public finances for operational and cumulative purposes, as well as to the commission fee of those not being permanent staff members, maintenance and smaller reparation works carried out by external contractors, the adequacy of the operation of internal controls was weak in the Mayor's Office, since the County Clerk did not provide for the attestation of professional performance and for the counter-signature of money orders in the audited field. The County Clerk terminated the deficiencies in the first half of 2010.

The regularity of IT tasks related to the financial accounting function represented altogether low risk in terms of the appropriate and regular performance thereof in the Mayor's Office, the adequacy of the operation of the established internal controls was appropriate. Setting up the organisational framework of the internal audit function and the regulation thereof represented altogether low risk in terms of the appropriate performance of internal audit tasks. The adequacy of the established controls was altogether excellent in the course of the operation of the internal audit function.

In relation to property management, the legality and regularity of the Local Government's financial management was not ensured in various cases, as restraints on the alienation of not negotiable nominal assets and negotiable assets were not respected, utilisation rights of a real property were granted free of

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charge to an economic organisation that was not eligible for that, a previous claim of the Local Government was given up in an irregular way, commitments were undertaken without counter-signature.

### **Recommendations**

Beyond the comprehensive audit of the financial management of the Local Government carried out in 2005, SAO performed four further audits between 2006 and 2009. 79% of the recommendations concerning regularity and expediency made in the course of these audits were utilised, 8% of them were partly implemented, while 13% were neglected.

Apart from the findings of the on-site audit, for the purpose of meeting legal requirements and improving the level of the work, we formulated recommendations as regards the preparation of the draft regulation on the budget, borrowing credits, property management – more specifically the regularity of the transfer of the Local Government's property rights –, the disclosure of data of public interest and the appropriate operation of internal controls for the Mayor and the County Clerk. In addition, we 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. We recommended the Mayor to inform the General Assembly about the audit findings, to provide assistance with the implementation of the recommendations, to have an action plan prepared in order to accomplish them, as well as to initiate the necessary process to call the County Clerk to account for the deficiencies revealed.