



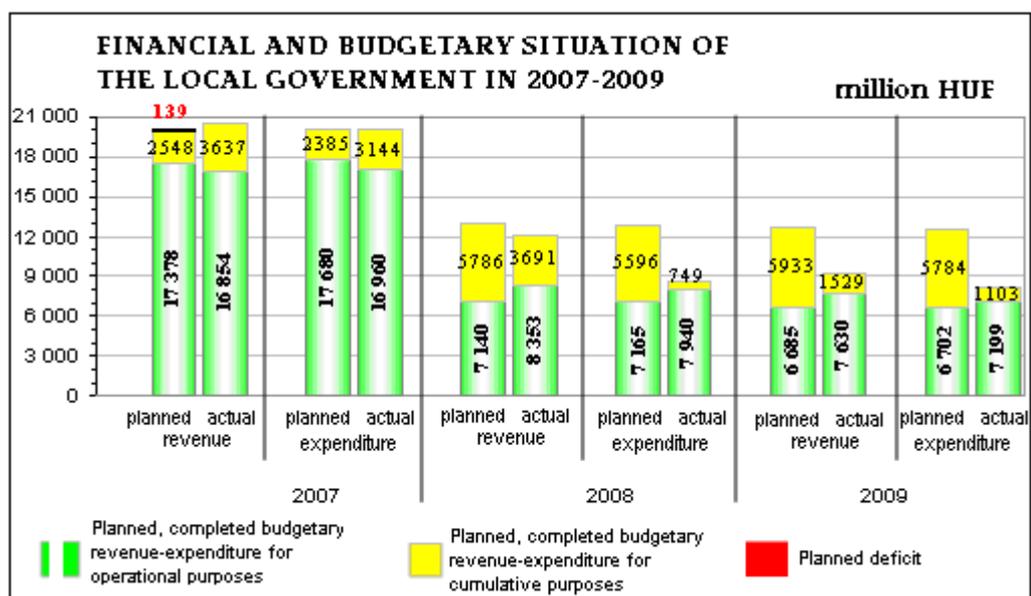
Summary

of the Audit on the Financial Management System of the Local Government of Vas County (1030)

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 Vas 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 the county – without Szombathely town with county status – was 184,117. The work of the Local Government's 40 member General Assembly was assisted by eight standing committees. In 2009 it was mainly the 31 budgetary institutions and 3 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 25,397 million. The following chart shows the trend of the Local Government's budgetary revenues and expenditures:



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 procedures 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.

Main findings of the audit

In the course of implementing the budgets for 2007-2009, the financial balance was ensured as the budgetary revenues exceeded the budgetary expenditures by HUF 387 million in 2007, by HUF 3355 million in 2008 and by HUF 857 million in 2009. The Local Government did not borrow any short or long term credits, did not sell any existing debt instruments, took measures resulting in a decrease in expenditures and – to finance expenditures for cumulative purposes – issued Swiss franc-based, floating rate bonds worth HUF 5 billion in 2007 for a term of 20 years. The revenues generated by the issuance of bonds were deposited in a bank account at the end of 2007, therefore when reckoning the budgetary deficit in 2008, the amount was not considered as revenue from a financial transaction of funding purposes but as part of the budgetary revenues. In 2007-2009 the Local Government had been continuously borrowing cash credits, the current account credit of HUF 570 million in 2007 increased to HUF 700 million in the first quarter of 2010, while the amount of year-end outstanding cash credit augmented from HUF 103 million at the end 2007 to HUF 249 million at the end of 2009. Altogether, the financial situation of the local Government slightly deteriorated between 2007 and 2009, due to the joint impact of the slight increase in its indebtedness and its slackening solvency.

In terms of internal regulation and organisation, the Local Government successfully prepared for the claiming and the utilisation of the funds of the European Union only from the second half of 2008.

The County Clerk fulfilled their obligation to disclose financial management data of public interest in compliance with the requirements.

In 2009 the regularity of processes related to budgeting and the preparation of final accounts represented altogether low risk in terms of the appropriate and regular performance of tasks in the Mayor's Office, 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 altogether low risk in the appropriate and regular implementation of the tasks. In the course of disbursements related to economic events the adequacy of the established internal controls was altogether excellent, as the persons appointed by the County Clerk performed the control tasks regarding the eligibility and numerical correctness of expenditures in order to attest professional performance, while the counter-signer of money orders ascertained that professional performance had been attested, necessary endorsements had been made and rules related to financial management – except for the disbursement of commission fees of those not being permanent staff members – had been respected.

Setting up the organisational framework 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. In the course of the operation of the internal audit function the adequacy of the established controls was excellent.

Recommendations

Beyond the comprehensive audit carried out in 2005, between 2006 and 2009 SAO performed five further audits at the Local Government. 86% of the recommendations made in the course of these audits were utilised, 7% of them were partly implemented, while 7% were neglected.

The majority of the deficiencies revealed during the on-site audits were terminated at the time of the audit.

Apart from the findings of the on-site audit, we recommended the County Clerk to inform the General Assembly – on the basis of yearly calculations, with regard to the increase in the Local Government's indebtedness – about the circumstances under which the Local Government can fulfil its obligations regarding payments and reimbursements arising from its long term commitments generating debts, as well as to prepare a liquidity concept and to examine in detail the possibilities that would allow for the repayment of cash credit within one year, having informed the General Assembly as well. Besides, we recommended the Chairman of the General Assembly to inform the General Assembly about the audit

findings, to provide assistance with the further implementation of the recommendations and to have an action plan prepared in order to accomplish them.