



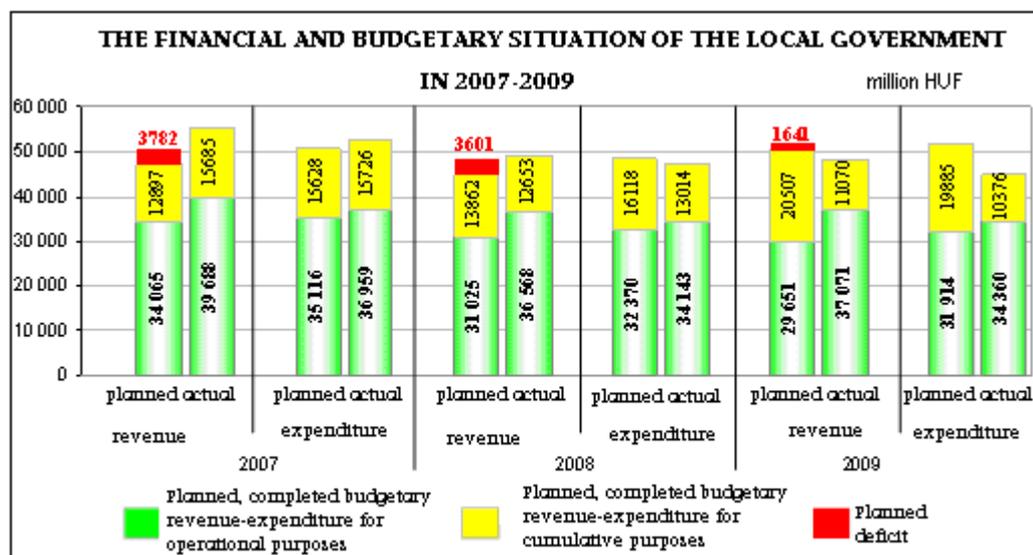
ÁLLAMI
SZÁMVEVŐSZÉK

Summary
**of the Audit on the Financial Management System of the Local
Government of Town Szeged with County Status (1033)**

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 town Szeged 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 169,645. Ten standing committees assisted the work of the 43-member General Assembly. The Mayor of the town has been performing his duties since the local government and mayoral elections of 2002; the person of the County Clerk has not changed since 25 January 2003. In 2009, its 47 budgetary institutions and 19 economic enterprises participated in the performance of the tasks of the Local Government. According to the accounting balance, at the end of 2009 the Local Government had assets worth HUF 274,453 million. The following chart shows the trend of the budgetary revenues and expenditures of the Local Government:



The audit objective 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 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, 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 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

The Local Government ensured the budgetary equilibrium between 2007–2010; the budgetary revenues covered the budgetary expenditures, since the budgetary revenues exceeded the budgetary expenditures in 2007 with HUF 2,688 million, in 2008 with HUF 2,064 million, in 2009 with HUF 3,405 million. The planned budgetary deficit was effectively corrected by the mid-year budgetary revenue surplus for operational purposes and – compared to the budgetary estimates – a decrease in the budgetary expenditures for cumulative purposes in 2008 and 2009. In the course of the implementation of the 2007 budget the Local

Government borrowed short and long-term credits, sold securities. In 2008 and 2009 the Local Government borrowed long-term credits and sold securities; in 2010 – in order to finance budgetary expenditures for cumulative purposes – the Local Government issued floating rate Euro-based bonds worth HUF 2,500 million for a term of 15 years. The Local Government deposited the revenue from the bond issuance in a budgetary settlement account. Between 2007-2009 the Local Government continuously borrowed liquid credits, from which the rollover credit was HUF 5,450 million, the current account credit was HUF 2,980 million in the period 2007-2009. The end-year liquid credit portfolio increased from HUF 4,500 million (in 2007) to HUF 6,631 million by the end of 2009. From 2007 to the first half of 2010 the financial situation of the Local Government altogether worsened, because of the increasing indebtedness and the insignificant improvement of solvency resulting from bond-issuance.

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.

The County Clerk did not meet completely their disclosure obligation, since they did not publish, or published only after the audit, the data specified in the regulation concerning the utilisation of the Local Government's funds, the management of its property, the contracts concluded by the institutions and the subsidy for special purpose granted by one institution on the Local Government's website.

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. The adequateness of the functioning of internal controls established for the prevention, detection and correction of operational errors was excellent. The regulation of the tasks related to financial management, financial-accounting and financial management control altogether represented 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. Moreover, the counter-signer of the payment orders made sure that the rules governing financial management had been respected, and that the attestation of performance was issued and necessary endorsements had been made.

The establishment and regulation of the organisational framework of internal audit represented altogether low risk in the appropriate implementation of the

internal audit tasks, since the head of the internal audit had been appointed, strategic plan was in force and the annual audit programme was approved by the General Assembly. The appropriateness of the established operational controls concerning the budgetary institutions and economic enterprises was excellent, however the internal audits planned for several years had not been completed in the Mayor's Office; the number and the subject of the planned audits concerning the Mayor's Office were not in accordance with the quantity, importance and risks of the duties performed.

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 claiming and settlement of the normative and fixed state contributions and subsidies of 2005; the audit on the claiming and utilisation of public utility subsidies used for road construction and waste water investments in the years 2000-2005; the audit on the 2006 subsidies for accumulation purposes, provided for investments and reconstructions of the Local Government; and the 2010 audit on the impact of state and local governmental measures taken for energy management, with special regard to the impacts of investments serving energy rationalization, 82% were implemented, 8% partially implemented, while 10% 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, the SAO formulated recommendations. While discussing the findings and recommendations of the auditors' draft report, the Mayor indicated – and at the same time attached the relevant documentary evidence – that nine regulatory and five expediency recommendations, addressed to the County Clerk in the auditors' draft report, had been implemented by means of interim measures. The measures taken, linked to the relevant subject matter, were included in part II of the audit report among detailed audit findings, while relevant recommendations were omitted from the audit report. The SAO 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. Moreover we recommended to the Mayor to initiate a procedure for the County Clerk being called to account, because in the Mayor's Office it is the County Clerk who is responsible for carrying out the

planned internal audits, and this deficiency had been revealed by the formal audit of the SAO whose recommendations included the termination of this practice, however the County Clerk did not take measures to implement the recommendation. The SAO recommended the Mayor to inform the General Assembly about the audit findings, to provide assistance with the implementation of the recommendations, and to have an action plan prepared in order to accomplish them.