

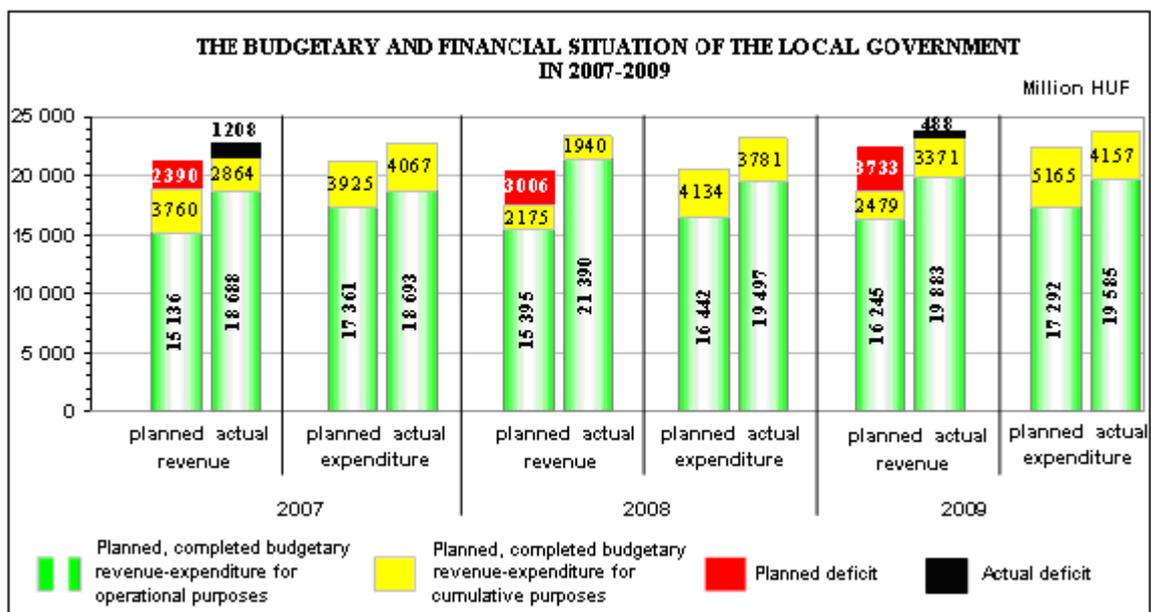


ÁLLAMI  
SZÁMVEVŐSZÉK

**Summary**  
**of the Audit on the Financial Management System of the**  
**Local Government of Town Szolnok with County Status (1037)**

Since 2003 the State Audit Office of Hungary (SAO) has been auditing the financial management system of local governments of counties, county level towns, 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 Szolnok 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 75,616. The work of the 27-member General Assembly was assisted by five standing committees. In 2009 it was mainly the 28 budgetary institutions and 7 economic enterprises of the Local Government – the latter owned fully by 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 of HUF 78,669 million. The following chart shows the trend of the budgetary revenues and expenditures of the Local Government:



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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 replacing the missing revenue sources; 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**

In 2007 and 2009 the financial equilibrium was not ensured in the course of the implementation of the budgets, as the budgetary expenditures exceeded the budgetary revenues by HUF 1,208 million in 2007 and HUF 488 million in 2009. At the end of 2008 a financial surplus of HUF 52 million was generated. The Local Government issued bonds worth HUF 8,165 million in 2007 and HUF 1,790 million in 2008 for operational and accumulation purposes, which were utilised as planned. The temporarily liquid funds from bond-issuance were placed into Forint and foreign currency deposits, invested into securities. The Local Government made money market operations too, bought securities and sold them before maturity. Between 2007 and the first quarter of 2010 the Local Government borrowed current account credits continuously, practically on a daily basis. The average amount of credits borrowed totalled HUF 1,304 million in 2007 and increased to HUF 1,608 million by 2009. The year-end sum of the credits not repaid rose from HUF 731 million in 2007 to HUF 2,201 million in 2009. The financial situation of the Local Government worsened due to the emerging indebtedness and the weakening solvency between 2007 and 2009.

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 Clerk met their obligation to disclose the data of common interest on the Local Government's website incompletely, because the name of the beneficiaries, the aim and amount of the subsidies as well as the place of implementation were not made public in case of approximately two-thirds of the subsidies provided for

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special purpose. In case of one institution the disclosure of contract data related to property management with the utilisation of the Local Government's resources did not comply with legal provisions, as the data was made public on the institution's website instead of that of the Local Government.

The regularity of processes related to budgeting and the preparation of final accounts represented low risk in terms of the appropriate and regular performance of tasks; the adequacy of the functioning of the established internal controls was altogether excellent. The regulation of the tasks related to financial management, financial accounting and financial management control represented altogether low risk in the regular implementation of the tasks. In the course of disbursements related to economic events, the adequacy of the established internal controls was excellent, as the persons appointed by the Clerk to attest professional performance had verified the eligibility and numerical correctness of expenditures; moreover, the counter-signer of the payment orders made sure 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 and regulation of internal audit represented altogether low risk in terms of the appropriate and regular performance of internal audit tasks; the appropriateness of the controls established in its functioning was excellent.

### **Recommendations**

The SAO completed, beyond the comprehensive audit of the financial management system carried out in 2005, four further audits at the Local Government in the period 2006-2009. 94% of the recommendations, formulated in the course of the audits were implemented, 4% of them were partially implemented and 2% were neglected.

Apart from the findings of the on-site audit, in order to promote the observation of the legal stipulations and to improve the level of the work, the SAO formulated recommendations concerning budgeting, the disclosure of data of public interest, the accounting for liquid credits, the preparation of the liquidity concept, as well as the review of the differences between the institutional appropriations and the realisation thereof. Furthermore, The SAO recommended the Clerk to inform the General Assembly – on the basis of annual calculations, with regard to the increase of 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. The majority of the recommendations were implemented during the on-site audit. We

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recommended the Mayor to inform the General Assembly about the audit findings, to provide assistance with the implementation of recommendations and to have an action plan prepared in order to accomplish them.