



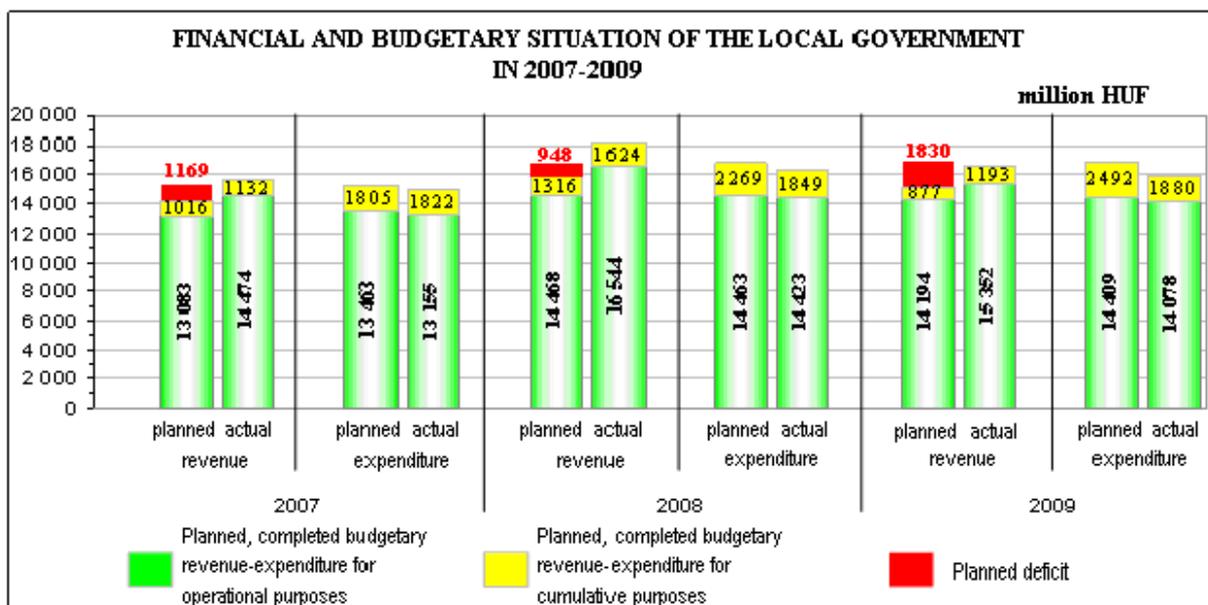
ÁLLAMI
SZÁMVEVŐSZÉK

Summary
**of the Audit on the Financial Management System of the Local
Government of Budapest District XV (1038)**

Objective and scope of the audit

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 Budapest capital city district XV local government took place in 2005 and now the SAO completed its audit of the four year period 2007-2010.

On 1 January 2010 the number of inhabitants in the district was 79,679; seven standing committees assisted the work of the 29-member body of representatives of the local government. In the implementation of the tasks of the local government 18 of its budgetary institutions and five economic enterprises participated in 2009. According to the accounting balance at the end of year 2009, the local government had at its disposal assets worth HUF 90,179 million. The following chart shows the trend of the budgetary revenues and expenditures of the local government:



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 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 control contributed to the regular completion of the tasks. Based on an ex-post audit, the SAO evaluated whether the Local Government had appropriately utilized the findings and the 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 the execution of the budgets of the years 2007-2009, the financial balance was ensured, as the budgetary revenues exceeded the budgetary expenditures by HUF 629 million in 2007, by HUF 1,896 million in 2008 and by HUF 587 million in 2009. The Local Government borrowed long-term loans in the amount of HUF 486 million in the period between 2007 and the first half of 2010 to cover the expenditures for cumulative purposes, while it issued Swiss franc-based bonds for a 15-year-term worth HUF 1000 million in 2007 and bonds on a euro basis worth HUF 1700 million in 2010. The Local Government had at its disposal current account credit facilities of HUF 400 million in 2007 and HUF 300 million in 2010, the average total current account credit amounted to HUF 45 million and HUF 188 million, respectively. The financial situation of the Local Government altogether followed an unfavourable trend from 2007 to 2009, as indebtedness remained unchanged and the solvency weakened. However, short-term commitments were covered nearly two times by the financial assets, while they were covered nearly five times by them together with the receivables and the securities held for trading.

In respect of regularity and organisation, the Local Government was altogether not effectively prepared for the claiming and utilisation of expectable EU funds in the period between 2007 and April 2009.

The Clerk provided for the fulfilment of the **disclosure obligation** insufficiently, as he did not publish the data required by law of the subsidies provided for special, operational and cumulative purposes granted by the

institutions, nearly half of the data of the subsidies provided for special purpose granted by the Mayor's Office, as well as the data of the contracts – in connection with asset management – concluded by the institutions. Additionally, the written explanation of the published annual financial statements did not comply with the legal provisions.

The regulation of the budget planning and final accounts preparation processes altogether represented low risk in the appropriate and regular implementation of the tasks. The functioning of the internal controls established for the prevention, detection and correction of the operational errors was altogether 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 payments related to economic events, the appropriateness of the established internal controls was excellent, as the persons assigned by the Clerk to attest professional performance fulfilled their tasks of certifying the eligibility and numerical correctness of the expenditures. Moreover, the counter-signer of the money-orders made sure that the attestation of professional performance had been issued and validated and the rules governing financial management had been respected, with the exception of paying the commission fees of those not being permanent staff members.

The establishment and regulation of the organisational framework of internal audit represented altogether low risk in the appropriate implementation of the internal audit tasks. The appropriateness of the established controls at the operation was altogether excellent.

Recommendations

65% of the regularity and expediency recommendations made by the SAO in the course of its comprehensive audit in 2005 on the financial management of the Local Government and the audit of the 2008 final accounts were utilised. 23% of these recommendations were only partly and 12% were not utilised.

Apart from the findings of the on-site audit the SAO recommended the Mayor to ensure the observance of the rules regarding the decision-making powers at EU tenders and to utilise, together with the Clerk, the recommendations which were formulated in previous SAO reports and has not been implemented. Furthermore, the SAO recommended the Clerk to take measures in order to establish and operate the regular framework of internal audit; to inform the body of representatives on the basis of annual calculations, under which conditions the Local Government can fulfil its obligation regarding payments and reimbursements resulting from its long-term commitments generating debt; to

follow up the utilisation by clients of the information system performing e-public service tasks; to ensure the operation of the internal controls of the IT system relating to the financial-accounting tasks; to promote the introduction of the integrated financial-accounting programme. The majority of the recommendations were utilised in the course of the audit. Additionally, the SAO recommended that the Mayor should inform the body of representatives about the findings of the audit, facilitate the implementation of the recommendations and have an action plan drawn up for their execution.