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ÁLLAMI  
SZÁMVEVŐSZÉK

**Summary**  
**of the Audit on the Legality of the Financial Management of the  
Hungarian Democratic Forum in 2008-2009 (1040)**

**Objectives and scope of the audit**

The objective of the regularity audit of the 2008-2009 financial management of the Hungarian Democratic Forum (hereinafter: the Party) was to ascertain whether the financial statements prepared by the Party and published in the Hungarian Official Journal conformed to the legal provisions, whether the data they contained was fair and in line with general ledger records, whether the related legal provisions and internal regulations were observed in the course of accounting and financial management, whether the resources used for operation were eligible for such purposes, and whether the financial management activity carried out was allowed by the act on political parties.

Based on their officially published financial statements, the Party accounted for an amount of revenue of HUF 263,324 thousand in 2008 and of HUF 391,697 in 2009, the 86% and 58% of which was received as a regular, state budgetary subsidy. The total expenditures amounted to HUF 215,961 thousand in 2008 and to HUF 933,807 thousand in 2009. It was not the volume of the amount of revenues and expenditures that justified the audit on the legality of financial management, but the biennial audit obligation stipulated in the Act on the State Audit Office of Hungary (SAO).

**Main findings**

The Party published its financial statements in the Gazette of Official Announcements and on its homepage within the deadline set in the act on political parties, but the financial statements did not show a true and fair view of the financial management. The degree of the error detected within the total revenue, compared to the published financial statement, exceeded the overall materiality threshold in both years (in 2008, it was 3.4% in expenditures, while in 2009 it was 3.3% in revenues and 3.1% in expenditures). It caused a specific material error that the obligatory specification of contributions and donations from national residents exceeding HUF 500 thousand stipulated by the provisions of the act on political parties was not comprehensive, and the subsidies were indicated with an inaccurate amount. The specification of three local governments, which provided in-kind asset contributions exceeding the value limit were missing in both years; in addition, a private individual was not

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specified in 2008, and the donation from four private individuals in 2009 was not indicated with the amounts supported by accounting records. Furthermore, 54% of the registered organisations in 2008 and 68% in 2009 did not declare their annual cash flow or its absence in the financial statement.

The accounting regulations were modified by the Party according to the earlier recommendation of the SAO audit, with attention paid to centralised financial management and accounting. In the internal regulations, the harmonisation of differences between the regulations regarding financial statements of the act on accounting and the act on political parties was still not ensured; the accounting policy and the regulations thereof did not fully reflect the provisions in line with the Act on Accounting relating to the characteristics of financial management. Financial management regulations and other regulations facilitating the observance of legality were set in the financial and financial management regulations in force; the records of the cash flow of local organisations were stipulated contrary to the provisions of the Act on Accounting.

Double entry accounting was performed by a newly chartered external accounting service provider based on its assignment received in autumn 2008. Upon the recommendation of the earlier SAO audit, the records of the bank account and cash flow were separated, and accounting according to cost categories was implemented. Despite the correction of the system errors of accounting, the principles of full disclosure, authenticity, consistency, matching and gross settlement were infringed, to which effect the financial statements contained material errors. The lack of the records of the assets under HUF 100 thousand, as well as of the cash flow of local organisations posed a property protection risk. Keeping analytical records and stocktaking was not comprehensive in either year and thus, annual closures did not comply with regulations.

The documentary principle and discipline were applied except in the case of approximately one-fourth of the mixed accounting records in 2008, whose substantiation was thus not ensured. From the requirements of the Act on Accounting regarding the form and content specifications of accounting records, the issuance of orders of payments at regional offices was not fully implemented, and it was not performed by the competent person, since the person to order payments for the county president was not assigned. The obligation to register forms of strict accountability was fulfilled. The retention of accounting records set in the Act on Accounting was not fully ensured.

Throughout its activities resulting in revenues and those of financial management, according to its accounting records and a related audit performed at the Foundation for a Renewing Society, the Party observed the restraints applicable to its acquiring of resources and financial management stipulated in the act on political parties. Party revenues resulted from regulated membership

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fee payments, budget subsidies, other contributions and donations, as well as other revenues (sales of real estates, leasing tangible assets, refunds of costs as well as compensations for damages and interest revenues).

The Party purchased 21 pieces of state real property in 2009 in line with the Act on State Property, and credit ensured by the law and disbursed by the Hungarian Development Bank Private Limited Company was used for the purchase. The mortgage rights of the bank were registered in the records of the Department of Land Administration. Due to the decrease in state subsidies of the Party, the audit considered the repayment of the credit risky.

As regards personnel costs, the wages were accounted on the basis of regular employment contracts. Employees did not have a job description, except for the director of the Party. They received meal vouchers, reimbursement for local and interurban travel tickets and schooling support for parents with children of school age in an amount below the tax-exemption limit. The refund of costs of the use of private cars for official purposes was accounted for based on an agreement, using a tax-exempt rate. The refund of costs in the amount of HUF 136 thousand for a private individual for a car not owned by them did not prove to be a tax-exempt payment.

The Party conformed to the provisions of the tax and social security acts as an employer; they regularly fulfilled their monthly and annual data provision, declaration and payment obligations. They failed to declare and pay company car tax after the purchase of a car in 2009, and to fulfil and declare their tax and contribution payment obligation arising from the private use of landline official telephones in both years. Declaration was complemented by self-audit in the period of the on-site audit. Internet fee was irregularly paid with tax exemption for a person not employed by the Party.

The regulation of the system of internal audit was contradictory in the Statutes amended in June 2009, because the operation of a two-level audit committee was stipulated, but a scope of duties and powers were not assigned to those operating at a regional level. The National Audit Committee did not perform an audit. The scope of duties, powers, responsibilities and counter-signature tasks in relation to the financial management of the financial director were not regulated, counter-signers were not appointed. The deficient operation of the financial management control did not reveal commitments not in compliance with internal regulations and exceeding the value limit as well as errors in accounting and in the preparation of the financial statements. Cash audit stipulated in the regulation of fund management was not performed, auditors were not assigned.

The measures initiated in the recommendation of the earlier SAO audit were only partially implemented by the Party, thus regulatory, accounting and accounting recording deficiencies were still existing, consequently, irregularities have been recurring.

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## **Recommendations**

Besides the utilisation of the experiences of the audit, the SAO recommends the Government to submit the amendment to the act on political parties, in order to enhance the enforcement of the transparency of party financing as well as the accountability of parties; with regard to the relief of contradictions affecting the accounting, recording and reporting system of parties, which have been existing between the act on political parties and the act on accounting for several years.

The SAO recommends the President of the Party to correct material errors in the financial statements of both years and to republish them; to amend accounting regulations to be in compliance with legal provisions; to correct accounting, recording and accounting recording errors; to establish rules of fund management of local organisations to be in harmony with the Act on Accounting. In addition, the SAO recommends the President of the Party to prepare job descriptions, to define and regularly exercise financial management powers; to self-audit the taxes and contributions payable after the taxable payments; to operate an audit system stipulated in legal regulations and in the Statutes.