



ÁLLAMI  
SZÁMVEVŐSZÉK

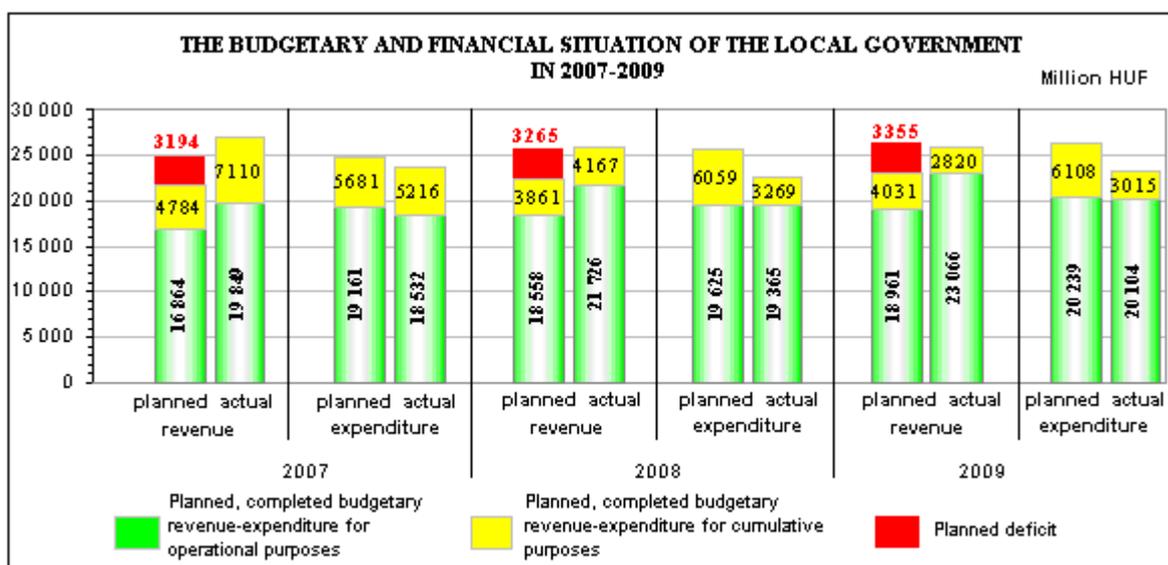
Summary

of the Audit on the Financial Management System of the Local  
Government of Budapest District XI (Újbuda) (1042)

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 district XI (Újbuda) of the capital city of Budapest 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 district was 103,173. Ten standing committees assisted the work of the Local Government's 38-member body of representatives. In 2009, it was the 59 budgetary institutions and nine 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 61,271 million. The following chart shows the trend of the Local Government's budgetary revenues and expenditures:



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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 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**

Between 2007 and 2009, the financial equilibrium was ensured every year in the course of budget implementation. The surplus of the actual budgetary revenues for operational purposes was HUF 1,317 million, HUF 2,361 million and HUF 2,962 million respectively in the consecutive years. In 2007 and 2008 the actual budgetary revenues for accumulation purposes exceeded the budgetary expenditures by HUF 1,894 million and by HUF 898 million respectively, while in 2009 the actual budgetary expenditure for accumulation purposes was higher by HUF 195 million than the revenue for the same purposes. According to the decision made by the body of representatives, in January 2010 an agreement was concluded to borrow a long-term credit of HUF 100 million with an obligation to pay floating-rate interest, in connection with the so-called Social Housing Loan Programme. In 2007 the Local Government provided guarantee for a credit borrowed by an economic enterprise in the value of HUF 95 million until 2011, and in the value of HUF 80 million yearly from 2012 to 2018, however, this act did not result in any payment liability for the Local Government until the first half of 2010. Between 2007 and the first quarter of 2010 the Local Government did not borrow any current-account or liquidity credits and no bonds were issued. In summary, the financial situation of the Local Government remained unchanged between 2007 and 2009.

In terms of internal regulation and organisation, between 2007 and the first quarter of 2010 the Local Government did not prepared effectively for the claiming and the utilisation of the funds of the European Union.

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The Clerk insufficiently fulfilled their disclosure obligation required by law, as they did not disclose the data of contracts regarding the use of funds and property management by the institutions, since the data were disclosed only on the website of the institutions. The Clerk disclosed the contracts concluded by the Mayor's office in 2009 only after the 60-day deadline. The textual justification of the disclosed financial statements of 2009 did not fully comply with the legal regulations.

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 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 weak, as in the case of disbursements related to the operational and development subsidies granted outside public finances the persons appointed by the County Clerk did not perform the control tasks regarding the eligibility and numerical correctness of expenditures in order to attest professional performance, while the counter-signer of money orders did not ascertain that professional performance had been attested, necessary endorsements had been made and rules related to financial management had been respected. The Clerk is to bear responsibility for the shortcomings revealed.

The organisational set-up of the internal audit function and the deficiencies of the regulation thereof represented medium risk in terms of the appropriate and regular performance of internal audit tasks. The adequacy of the established controls of its operation was adequate.

### **Recommendations**

The SAO completed, beyond the comprehensive audit carried out in 2005, two further audits at the Local Government in the period of 2006-2009. 70% of the SAO recommendations made in the course of audits were fully, 15% partially implemented. Another 15% of the recommendations were neglected.

Apart from the findings of the on-site audit, in order to promote the observation of the legal stipulations and the level of the work, the SAO formulated recommendations for the Mayor concerning the observation of the regulations of the Local Government decree when granting the own resources for applications for EU funds; as well as the utilisation of recommendations made in former SAO reports which had not been implemented. Additionally, the SAO recommended

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the County Clerk to meet the regulations concerning planning when preparing the budget; to prepare the submission of the financial programme within the deadline; to ensure the publicity of data of public interest; to enforce the guarantees specified in contracts regarding the preparation of applications for European Union funds; to operate appropriately the control system established for the prevention, detection and correction of errors in financial management; to set up and operate the regulatory framework of internal audit; to utilise the recommendations made in former SAO reports that had not been implemented; to prepare a strategy for e-public services; to monitor the clients' utilisation of the IT system providing e-public services; to set up appropriately and operate IT systems used in financial and accounting areas. Some of the recommendations were implemented during the audit. Furthermore, the SAO recommended that the Mayor should inform the body of representatives about the audit findings, provide assistance with the implementation of the recommendations, have an action plan drafted in order to accomplish them, and to initiate Clerk's impeachment for the deficiencies revealed.