



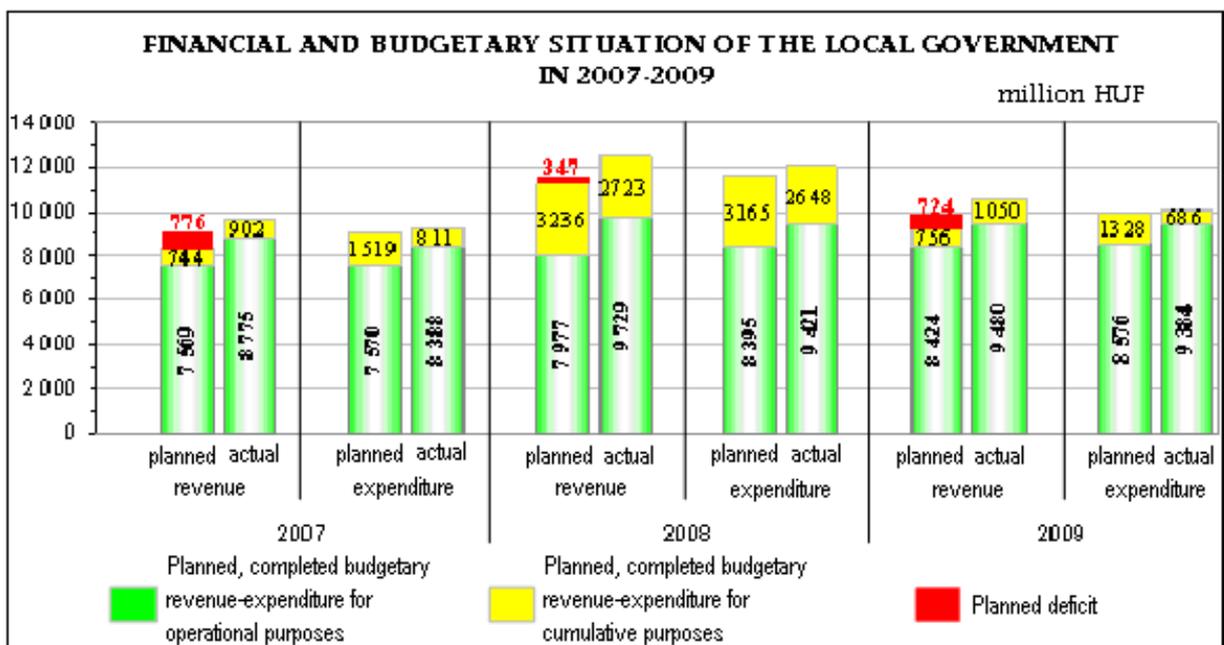
ÁLLAMI  
SZÁMVEVŐSZÉK

**Summary**  
**of the Audit on the Financial Management System of the Local  
Government of Budapest District XX (1047)**

**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, 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 on the financial management of the Budapest capital city district XX 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 68,763; nine standing committees assisted the work of the 27-member body of representatives of the Local Government. In the implementation of the tasks of the Local Government, 31 of its budgetary institutions and four 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 24,761 million. The following chart shows the trend of the budgetary revenues and expenditures of the local government:



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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. In the course of a follow-up audit, the SAO evaluated whether the Local Government had appropriately utilised 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 every year, as the surplus of the completed budgetary revenues for operational purposes amounted to HUF 387 million, HUF 308 million and HUF 96 million in 2007, 2008 and 2009 respectively, while the completed budgetary revenues for cumulative purposes exceeded the budgetary expenditures for cumulative purposes by HUF 91 million, HUF 75 million and HUF 364 million in 2007, 2008 and 2009 respectively. In 2007, the Local Government borrowed long-term loans with obligation to pay floating rate interest of HUF 60 million for supporting the energy-saving renovation of flats and of HUF 532 million in 2009 for the construction of a training swimming pool. According to the decision of the body of representatives, Swiss franc-based, floating rate bonds for a 15-year-term were issued in the amount of HUF 2,600 million in 2007 for cumulative purposes, which were utilised for the repayment of loans and financing the expenditures for cumulative purposes. The amount of the commitment undertaken in the subject year resulting from borrowing did not reach one per cent of the upper limit of the commitment generating annual debt in the year of the bond issue. Borrowing and bond issuance represent a risk for the Local Government because of the floating rate of the loans borrowed and the bonds issued, as well as the changes of the exchange rate of Forint against Swiss francs. In the course of the implementation of the 2007-2009 budgets, the Local Government borrowed current account credit and wage credit in order to ensure liquidity. By the end of 2009, its total outstanding current account credit increased to HUF 313 million, one and a half times more than the amount in

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2007. The financial situation of the Local Government altogether followed an unfavourable trend from 2007 to 2009, as indebtedness increased and the solvency weakened.

In respect of internal regulation and organisation, the Local Government was effectively prepared for the claiming and utilisation of EU funds between 2007 and 2009.

The Clerk provided for the fulfilment of the **obligation of disclosure** on the website of the Local Government insufficiently, as he did not publish the data of nearly half of the contracts relating to the utilisation of the funds of the Local Government and the financial management of assets. The written explanation of the annual financial statement of 2009 did not fully comply with legal provisions.

The deficiencies in the regulation of processes related budget planning and the preparation of final accounts represented medium risk in the regular implementation of the tasks. The functioning of the established internal controls was good. The deficiencies of the regulation of the tasks regarding financial management, financial-accounting and financial management control altogether represented medium risk in the regular implementation of the tasks, as the Clerk did not regulate the tasks and competencies, responsibilities of employees responsible for performing financial-economic tasks, the substitution order, the means of internal and external communication in the rules of procedure of the economic organisation in spite of the recommendation of the SAO, for which he is liable. In the course of payments related to economic events, the appropriateness of the established internal controls was good. However, prior to the payment of expenditures related to the transfer of funds outside public finances for operational and cumulative purposes the professional performance was not attested in spite of the earlier recommendation of the SAO. Prior to the payment of expenditures related to the fee of those not being permanent staff members, professional performance was not attested in compliance with the financial management regulation, and the counter-signers of money orders did not note that the attestation of professional performance was not in compliance with the regulation. For these deficiencies the Clerk is to bear responsibility.

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

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## **Recommendations**

Beyond the 2005 comprehensive audit on the financial management of the Local Government, the State Audit Office of Hungary carried out two audits concerning the Local Government. 67% of the recommendations made in the course of the audits were utilised, 6% were partly implemented and 27% were neglected. In order to ensure the compliance with legal provisions and the improvement of the quality of work, apart from the findings of the on-site audit the SAO recommended the Mayor to initiate the impeachment of the Clerk, to ensure that payments are effected from the revenue separated on the bond account according to the authorisation of the body of representatives and that the Financial Committee follow up and evaluate the fulfilment of revenue appropriations. Furthermore, we recommended the Clerk to observe the regulations of planning during the preparation of the budget, to determine the residue regularly, to remedy the regulation and implementation deficiencies of the controls on the budget planning and final account preparation processes, to operate adequately the control system established for the prevention, detection and correction of errors in the course of the operational financial management, to establish the number of internal auditors on the basis of capacity assessment, to utilise the recommendations which were included in former SAO reports and were not implemented, to inform the body of representatives regularly on the debt service of repayment and interest payment charges arising from the long-term commitments generating debt, to establish and operate the information systems used in the financial-accounting field expediently. A part of the recommendations were utilised in the course of the audit. Furthermore, we recommended the Mayor to 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.