



**Summary**  
**of the Audit on the Financial Situation of the Local Government**  
**of Town Zalaegerszeg with County Status (1141)**

**Relevance of auditing the local governments of towns with county status**

The current economic difficulties of Hungary can be attributed mainly to the disorder of public finances in former periods and to the high total debt. The year 2010 demonstrated that part of the risks is not connected to the central budget, but to the local level of public finances. Due to the financial management difficulties, the increase in the cash flow deficit, as well as the dangers resulting from indebtedness in the local government system, the State Audit Office of Hungary (SAO) decided to audit the financial situation of local governments. The risk analysis carried out by the State Audit Office of Hungary showed that firstly the audit of local governments operating at the middle level – mainly those of counties and towns with county status – is reasonable.

The audit objective was to evaluate whether the local governments of towns with county status ensured long-term financial balance and whether the recommendations concerning regularity and expediency to improve the financial balance – made in the course of the former audit of the financial management system – were utilised. The audit covered the period 2007-2010 and, where possible, we also tried to include the period until the last quarter before the on-site audit.

**The financial equilibrium of the local government of town Zalaegerszeg with county status**

In the audited period the debt of the local government increased from HUF 1.6 billion to HUF 2.1 billion. The current budgetary balance showed a surplus in terms of operating resources between 2007-2010, amounting to a total of HUF 5.7 billion. At the local government the expenditures allocated for the completed developments between 2007-2010 amounted to HUF 5.9 billion. In order to complete the development tasks ongoing as of 31 December 2010, expenditures in the amount of HUF 17.4 billion were effectuated. The balance of the cumulative budget was continuously negative, a deficit in cumulative resources amounting to altogether HUF 6.1 billion emerged between 2007-2010.

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The local government could manage to ensure the financial balance of its operation without borrowing a current account credit. The lack of development resources was managed by means of long-term development credits. In the audited period credit agreements were concluded in the amount of HUF 1.9 billion, 46.7% of which was utilised. The bank liabilities of the local government at the end of 2010 originated from the borrowing of long-term credits for development purposes in the amount of HUF 2.1 billion. Consequently, the local government has to effectuate a capital repayment and interest payment of HUF 0.9 billion.<sup>1</sup> The local government's arrears to suppliers amounted to HUF 0.2 billion at the end of 2010. The resources resulting from the securities portfolio and the interest revenues thereof, as well as from the collection of receivables provide a cover for the total amount of liabilities. Further bank liabilities due as of 2014 amount to CHF 1.7 million. The resources to be taken into account for the repayment thereof were not named, however the tangible immovable assets worth HUF 10.9 billion – not burdened with mortgages in relation to bank liabilities – and the local government's own revenues might serve as collateral.

As a result of tendering activity, following the year 2010 the local government undertook commitments in the amount of HUF 2.6 billion, which are planned to be funded by means of EU subsidies in the amount of HUF 0.9 billion, own resources worth HUF 1.5 billion and credit framework arrangements concluded in the amount of HUF 0.2 billion.

The local government did not examine what kind of obligations the replacement of depreciated assets might cause. In the years 2007-2010, the local government accounted for a depreciation of HUF 7.1 billion after the tangible assets, while it spent only a fraction thereof, HUF 1.6 billion (22.5%), on renovation.

In order to improve its financial situation, the local government took measures increasing its revenues and reducing its expenditures (lending out real estates and other assets, imposing fees on services, placing temporarily liquid assets in deposit, as well as cutting back the number of staff, decreasing the subsidies provided for non-governmental organisations and other austerity measures). According to the information given by the local government, the simultaneous impact of these measures improved its financial situation by HUF 1.3 billion.

The recommendations concerning regularity and expediency aiming at the improvement of financial balance and made in the course of former SAO audits had been utilised.

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<sup>1</sup> Taken the extent of the interest of the first quarter of 2011 as a basis.

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The financial balance of the local government is ensured on the short and medium term. The local government has to prepare for the long-term sustenance of its financial balance.

### **Recommendations for the Mayor**

- To take measures for the elaboration of an action plan to ensure the long-term sustainability of the financial balance of the operation. The action plan should contain the exploration of possibilities increasing revenues, the comprehensive review of the investments planned – and those in progress – and other expenditure obligations, as well as the overview of the structure of debt service.
- To examine the availability of internal and external resources necessary for the developments in progress and those planned by the local government and from this aspect evaluate the investments of the local government, provide for the inclusion of resources ensuring the operation of facilities established by means of investments in regulations on the budget.

### **Recommendations for the town clerk**

- To follow up the foreign exchange, interest, repayment and collateral risks to be expected in the future and to inform the General Assembly at least every half year about the developments thereof.

To ensure that in the future the proposals of the General Assembly on the commitments generating debt contain the resources of repayment in a detailed manner and present the effects of interest rate and foreign exchange risks to be expected at least in the following three years.