

Municipalities' internal control system – Audit of the establishment and operation of the internal control system of municipalities – on the audit of Rudabánya (18026)

On 17 January 2018, the State Audit Office of Hungary published the compliance audit of the establishment and operation of the internal control system, as well as certain investment decisions, their implementation and accounting at the Local Government of Rudabánya. The SAO established that the internal control system of Rudabánya municipality was compliant in 2016; it ensured compliant use of public funds and responsible management of the national assets. Investment decisions were brought in compliance with the regulations. Due to accounting irregularities no data were available on the true value of invested assets.

In accordance with its strategic goals, the SAO – pursuant to the authorisation set out in Act LXVI of 2011 on the State Audit Office of Hungary – performs audits of the responsible management of public funds and assets owned by the state and local governments, as well as audits of compliance with the accounting rules and the operation of internal control system of local governments. Furthermore, it supports the establishment of the integrity-based, transparent and accountable use of public funds. In the case of organisations managing public funds, the SAO assigns priority to auditing the adequate operation of internal control systems.

The SAO audit addressed whether the establishment and operation of internal control system of Rudabánya municipality was compliant, whether it ensured compliant use of public funds, regular and responsible management of public funds and national assets and the fulfilment of reporting and data provision obligation. In the framework of the audit the SAO also evaluated the fullness of integrity controls for the management of corruption risks linked to the municipality, whether integrity approach has been applied and whether the establishment of the internal control system related to certain investments is in compliance with the legal requirements.

The audit concluded that the establishment and operation of the internal control system of the Rudabánya municipality was compliant in 2016; responsible and transparent management of public funds and national assets has been applied. The establishment of the control environment was regular; the regulations provided for by the law have been drawn. An integrated risk management system has been established, the municipality held a regulation of risk management which, however, was not operated despite regulative provisions and specific risks entailed by activities and relating to organisational objectives have not been assessed and identified. The establishment and operation of the information and communication system was compliant, legal requirements on transferring internal and external information have been met during operation.

The performance of local government tasks related to the management of the minority self-government complied with legal provisions.

Investment decisions were brought by the representative body in each and every case in line with legal regulations. Due to the incorrect categorisation of business shares and the lack of accounting the capital reduction of 2015 and 2016 the report of the municipality failed to present a true picture of the value and change of invested public asset. Stock-taking of shares has not been completed in spite of the legal requirements.

Controls established to ensure organisational integrity were insufficient to meet the risks; thus, the development of integrity and the establishment of further controls is needed. Main integrity controls have been established by the municipality; however, the operation of controls strengthening integrity have not reached a high level.

In its report, the State Audit Office of Hungary made six recommendations to the chief administrator in respect of which he must prepare an action plan within 30 days. At the same time, the President of the SAO issued a notice to the mayor requesting him to take steps to eliminate the unlawful practices revealed by the audit.