



STATE AUDIT
OFFICE OF HUNGARY

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ÁLLAMI
SZÁMVEVŐSZÉK

Magyar Pénzügyi-Gazdasági
Ellenőrök Egyesülete
Elnökség

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“Concern for man and his fate must always form the chief interest of all technical endeavours. Never forget this in the midst of your diagrams and equations.” (Albert Einstein)

Dear Reader,

The State Audit Office of Hungary (SAO) is the financial and economic audit organisation of the National Assembly, the supreme organ of public auditing and one of the key basic institutions of the democratic state organisation. Our priority task is to audit and evaluate the operation of the financial system of public finances, and thus promote the development thereof.

The year 2010 brought significant changes in the history of the State Audit Office of Hungary. Firstly, the SAO had and has to react to the challenges caused by the worldwide economic trends. Secondly, the exploitation of opportunities, which opened up as a result of the political changes in the country, has to be facilitated also by strengthening the control over the expedient and efficient utilisation of public funds. The fact that the mandate of the former President of the State Audit Office of Hungary expired on 9 December 2009 also has to be mentioned. In the six months that followed, the Members of the Parliament could not reach an agreement on the person of the new president. Thus, till July 2010 the organisation pursued its activity without a president and vice-presidents.

Simultaneously with my election and my assumption of office, the vice-president was also elected. Thus, after a long time, the SAO is directed again in line with the provisions of the Constitution. We considered it our primary task to ensure the management of the organisation and – at the same time – to get familiar with the operation of the organisation and the activity of the staff. After a preparatory work of a half year, the restructuring of the organisation was begun in January in order to implement the Medium-term Strategy of the SAO, its 2011 Audit Plan and the objectives included therein.

The changes were launched keeping in view *the principle of value-preserving renewal* of the organisation in all areas. This provides a basis for implementing the necessary changes with the continuous renewal in a way that it does not disturb peaceful operation. Our aim is to make the organisation capable of continuous progress, which relies on the values and achievements of the State Audit Office of Hungary and – at the same time – meets the challenges of the changing legal and economic environment.

As the supreme organ of public auditing, it remains our aim to serve the safe, balanced, efficient operation of public finances and to support the development thereof, to enhance the transparency of processes related to public funds and the accountability of the financial management of public funds. At the same time, in the period of the economic crisis, when all economic organisations, citizens and the state have to cope with tightening budgets in their managements, we consider the enhanced audit of the expediency and efficiency of the financial management of public funds also necessary.

We consider it important that the State Audit Office of Hungary should not only reveal errors, but make the knowledge accumulated about the economy available for the society as widely as possible. Our aim is to achieve a better utilisation of our reports. With our audit findings and recommendations we wish to contribute increasingly to the development of a more efficient operation of the audited organisations and to the substantiation of legislative work. Therefore the Research Institution of the State Audit Office of Hungary prepares – utilising the experiences of the SAO audits – syntheses and evaluation studies as well as background studies presenting the operation of the system of public finances and the possibilities of its further development.

In order that our findings could promote more the interests of the community, it is indispensable to make our reports easier to understand and our communication clear and unambiguous. To this end, we put more emphasis on the composition of our reports in terms of linguistics, too. We develop the sense of phrasing of our staff both in writing and orally. By doing so, we do not only endeavour to promote the professional appearance, but we also wish to make our message more understandable also for the public. This process is assisted by the renewal of our website and the launch of a new online news portal. Our colleagues also take part directly in forming the way of thinking about public funds by teaching at universities and colleges as well as by making presentations at various professional events.

The attention paid to our reports is enhanced also by the Public Finance Quarterly, the professional journal of public finances published every three months and edited by the State Audit Office of Hungary. The objective of this publication containing the articles of the most excellent members of the economics profession is to provide a fair and true picture on the national financial system, on the main features of public sector and national economy operations, as well as on related professional discussions.

It is our new initiative to make known the several progressive financial management solutions learnt in the course of our audits at the audited entities and to facilitate their introduction in other organisations as well. The promotion of these solutions can be an important complementary element of the utilisation of SAO audits. The dissemination of good practices is particularly justified among local governments, as the solutions already proved to be working at one or the other local government can be adapted by hundreds or thousands of local governments in the course of their own activities. Therefore the SAO has recently launched a series of seminars with the title ‘Let good example be infectious! Best practices in the utilisation of public funds’.

The organisational changes necessary for implementing the objectives involve also changes regarding the permanent staff. In the course of these changes, we endeavour to take into account the principle of value-preserving renewal. The assistance of the colleagues with many years of experience and professional know-how is the guarantee for the proper and efficient implementation of our tasks to be completed. At the same time, in place of the retiring experts, young people starting out on a career join in the activity of the institution. Thus such a professional staff will be formed who can be renewed in conformity with the requirements of the changing world, while retaining professionalism. This process is supported by the reorganisation of the office. By harmonising the functions and the scope of the individual organisational units’ activities, we establish new organisational units, in a reduced number.

I hope that the above have aroused the interest of our Readers and you feel like learning more about the activity, objectives and results of the State Audit Office of Hungary. We wish to facilitate your orientation with this short guide. For further information, please visit the different sections of our website.

Budapest, 2011.

László Domokos
President



HISTORICAL OVERVIEW

In Europe, the forerunners of today's audit institutions were established approximately 250-300 years ago, first in Germany and Belgium. In a document of the Royal Chamber from 1528 there is already a reference to the audit of the financial management of public revenues, which became a requirement in Hungarian territory only at the end of the 18th century, and got more emphasis during the 1848 revolution. It was laid down as a fundamental principle that the nation not only has to support the Treasury but also has the right to call it into account. After the Compromise of 1867, the imperial and royal Supreme Audit Office was established in 1868, which kept a record of and audited the expenditure of the common policy sectors (foreign affairs, military affairs and general finances) of the Austro-Hungarian Monarchy.

The first independent Hungarian Audit Office was established in 1870, and its name changed to Hungarian Supreme Royal Audit Office (SRAO) in 1914.

Similarly to the present audit office, the SRAO already audited the management of public funds and assets as an organisation independent of the Government, with a sovereign mandate. In fact, the SRAO is considered to be the real predecessor of today's State Audit Office of Hungary (SAO) in terms of both its special, independent status and its broad audit tasks.

In an independent status, the SRAO audited the utilisation of public funds, prepared and submitted a report to the National Assembly on the annual final accounts of the state budget. Gradually such a public auditing system evolved, in which the SRAO audited the central budget and the organisations financed therefrom. The management of public funds of the capital city of Budapest, counties, towns with municipal rights and other towns was audited by audit offices belonging to the Ministry of the Interior, which were professionally supervised by the SRAO.

The SRAO operated unhindered till the political turn following the Second World War II, but it was abolished by a decree in 1949. Thus, for nearly forty years the management and central organisation of state auditing (State Auditing Centre, Ministry for State Auditing, Central People's Control Committee) was transferred to the Government's scope of authority instead that of the National Assembly.

As a result of the social and political changes accelerated by the end of the 1980's, the constitutional bodies representing the guarantee for democracy were established, such as the Constitutional Court and the State Audit Office of Hungary.

Our institution was established by the constitutional amendment of 23 October 1989 as well as by the Act XXXVIII of 1989 (Act on the SAO), simultaneously with the proclamation of the Republic of Hungary. Its headquarters are located in a building of long history, preserving its architectural and esthetical values.



LEGAL STATUS OF THE STATE AUDIT OFFICE OF HUNGARY

The prerequisites for the guaranteed functioning of a democratic state based on the rule of law are the legality, transparency and accountability of the utilisation of public funds and properties. **The SAO is the financial and economic audit organisation of the National Assembly, the supreme organ of public auditing and one of the key basic institutions of the democratic state organisation.** The SAO, which is a politically and professionally independent organisation, audits the utilisation of public funds and properties.

The independence of our organisation is guaranteed by the fact that its tasks and mandate are stipulated by acts adopted with a majority vote of two-thirds of the Members of Parliament (MPs), i.e. by the Constitution and the Act on the SAO.

The guarantees of the political and professional independence of the SAO are the following:

- The State Audit Office of Hungary is subordinated only to the National Assembly and the law.
- The SAO has an overall mandate within its capacities stipulated by law.
- A majority vote of two-thirds of MPs present is required for the adoption of the Act on the SAO.
- A majority vote of two-thirds of all MPs is required for the election of the President and Vice-Presidents of the SAO. The President and Vice-Presidents are elected for a period of 12 years by the National Assembly and they can be re-elected.
- The President and Vice-Presidents are accorded immunity; the President and Vice-Presidents cannot be engaged in any political activities.
- As for the President, Vice-Presidents, the Secretary General, senior officials and auditors, rigorous rules must be observed in order to avoid conflict of interests and the obligation to prepare a declaration of property also applies.
- While performing their tasks, auditors shall enjoy the same protection as public officials.
- The SAO prepares independently the draft budget proposal of the budgetary chapter 'State Audit Office of Hungary' as well as the proposal for the execution thereof. The Government submits both documents to the National Assembly as part of the central budget in the budget bill and the final accounts bill respectively; the SAO decides independently on the (functional) number of its staff.
- The financial management of the SAO is audited by an independent chartered accountant, entrusted by the Speaker of the National Assembly.
- Our reports and opinions are disclosed.



ACTIVITY AND TASKS OF THE STATE AUDIT OFFICE OF HUNGARY

As stipulated by the Constitution and the relevant acts, our priority task is to audit and evaluate the operation of the financial system of public finances, and thus to promote its development.

Besides the Constitution and the Act on the SAO, approximately 30 acts specify the audit rights (obligations) and other tasks of the SAO. The Act on the SAO is available on our website in the section: Introduction/Act on the SAO.

Providing an opinion on the substantiation of the budget bill is almost a unique mandate in the international audit practice, which helps the National Assembly in exercising its budgetary right. In most countries, auditing the financial management of local governments is not the task of the supreme (central level/national) audit institution. According to the effective national legislation (Act on Local Self-Governments), this audit is based on the objectivity and the independence of the SAO.

THE SCOPE OF AUDITS CARRIED OUT BY THE SAO

The substantive objective of financial audit is to serve and reinforce the security of public financing. On one hand, auditors ascertain whether this security is ensured, on the other hand they initiate corrective measures if they experience the lack of security or any high risk factors endangering it. **The fundamental technical objective of the audit is always the prevention or the initiation of corrective measures regarding the detected error or deficiency.** Audit experience – although always reporting on the past or present – is basically addressed to the future.

The SAO carries out its audits with regard to the criteria of legality, expediency and effectiveness. Our audits cover the whole area of public finances, the state treasury and entrepreneurial assets thereof as well as the financial management of certain organisations outside public finances.

On the basis of separate legal provisions, it is also the task of the SAO to audit the legality of the financial management of political parties, as well as that of certain institutions with a reporting obligation to the National Assembly. Upon international request we can perform audits abroad as well.

The audit mandates of our organisation cover – among others – the financial management of social security and separated state funds, local governments and minority self-governments, regional development councils of the counties, economic chambers, public foundations, non-profit organisations, pension funds, credit institutions, institutions of higher education, political parties, their foundations and churches. Our auditors carry out audits – among others – at the Office of the Hungarian National Assembly, the Hungarian State Holding Company, the National Tax and Customs Administration, the National Bank of Hungary, the National Council for Communications and Information Technology, the National Media and Infocommunications Authority, the Public Service Public Foundation as well as at the Hungarian Academy of Sciences.

TYPES OF AUDITS CARRIED OUT BY THE SAO

In order to assist the prevention of harmful processes, the observance of law, the economic and efficient utilisation of resources – by means of notifications, advice, recommendations –, the audits of the SAO have a manifold nature. The approach determines the type of audit.

The audits of the SAO can be classified into two main groups: regularity and performance audits.

Regularity audit

Regularity audits aim at organisations and their operation as well as activities, programmes, the relating financial processes, accounting and the reporting thereupon. The objective of regularity audits is to assess the legality and regularity of the above.

Performance audit

The objective of performance audits is to evaluate whether the organisations performed the projects and activities in an economic, efficient and effective way.

Following international practice besides the traditional financial audit, the activity of our organisation is also extended to the audit of the efficiency as regards the utilisation of funds. The comprehensive, complex evaluation of the national economic processes of key importance, as well as that of the activities of public administration and state organisation are increasingly gaining ground. The above processes are reinforced by the harmonisation and integration efforts of the international professional organisations of Supreme Audit Institutions.



PLANNING OF THE AUDIT WORK

Our audit and organisational development activity is based on our Medium-term Strategy. Taking into consideration this strategy and our legal obligations, we elaborate our audit plan every year.

The annual Audit Plan of the SAO contains the audit assignments in a thematic system (including an outlook for a further two-year period), which is approved by the President. Our audits focus on processes and organisations which are important and topical from an economic and social aspect, in case of which the utilisation of public funds and operational risk are considerable.

For the implementation of audit assignments the audit directorates prepare an operational plan which contains the necessary human resources and the schedule of audit activities in details. Every audit is carried out on the basis of the audit programme approved by the President, which indicates the objective, aspects, site, questions of the audit as well as the legislation relevant to the field, the participants, their division of labour and the implementation schedule of the audit.

It helps informing the Members of Parliament and also facilitates their work that the approved programmes are available on the computer network of the National Assembly.

When drafting the audit plan, the tasks stipulated by law to be implemented annually or biennially are dominant:

- the audit of the final accounts involving the statement of assurance and giving an opinion on the substantiation of the budget bill;
- simultaneously with the audit on the implementation of the state budget, the audit of the budgetary relations of local governments is also performed;
- it is a regular task to audit the legality of the operation of budgetary chapters, the utilisation of social security and separated state funds, the financial management of local governments as well as the financial management of privatisation organisations and political parties (and their foundations).

Further audits are decided upon by the President of the SAO. We pay special attention to the audit of the effective utilisation of EU funds.

PROFESSIONAL RELATIONS

We develop our internal and international relations in order to improve the professional and financial audit culture and utilise our experience.

Our internal relations

We continuously cooperate with the Hungarian Non-Profit Association of Financial-Economic Auditors as well as with other professional, non-governmental organisations, taking a leading role in such cooperations. Together with universities and colleges – with which we have cooperation agreements in force – we participate in the professional preparation of the economic experts of the future, as well as in forming their ways of thinking.

International relations

The primary purpose of our activities in the international audit community, i.e. our participation in external professional events and internal programmes, is that the SAO staff

- get familiar with the professional requirements and practices widely accepted on the international level;
- contribute also by themselves to the elaboration thereof in various fora, thus developing the domestic financial audit culture.

Our organisation maintains direct bilateral relations with national supreme audit institutions in the framework of international cooperation. Moreover, we take part in the work of several international organisations, out of which the most important ones are:

- INTOSAI (International Organization of Supreme Audit Institutions);
- EUROSAI (European Organisation of Supreme Audit Institutions);
- ECA (European Court of Auditors);
- V4+2 (the cooperation network of the SAIs of Hungary, Poland, the Czech Republic, Slovakia, Austria and Slovenia).

INTOSAI, the world organisation of supreme audit institutions, was established in 1953 in Havana. Today the membership of INTOSAI numbers the SAIs of 186 countries.

The institutional and regular cooperation between SAIs in the framework of the European Union aims primarily at the audit of the utilisation of EU funds. In addition, it provides a forum for the exchange of professional experience.

The European Court of Auditors is the independent external auditor of the financial management of the European Union. It audits the implementation of the general budget of the EU and the budget of the European Development Funds. It verifies whether all the revenues of the EU were collected and whether the expenditures were effectuated in compliance with legal provisions.

The European Court of Auditors prepares a so-called annual report on the implementation of the general budget of the EU, which contains the evaluation of the efficiency and effectiveness of the management of EU subsidies, too. ECA puts special emphasis on the fields, in which its former recommendations did not bring – or not to the expected degree – the necessary changes.

The SAO maintains professional relations with the International Board of Auditors for NATO in the course of the audit on the common budget of NATO composed of the contributions from member states and on the utilisation of funds of the NATO Defence Investment Program from the same source. Moreover, we follow with attention the international developments relating to the audit on NATO funds.

At the beginning of the 1990's, the cooperation of the Visegrad Countries (Poland, Czech Republic, Slovakia and Hungary) was established upon Hungarian initiative, and since then – with the accession of Austria and Slovenia – it assists the enforcement of the interests of the Central European region with joint actions and common positions.

Parallel audits also served professional development and exchange of experience, among others in the field of environmental topics between Austria and Hungary as well as between Austria, Hungary and Slovenia and – as regards disaster management – between Ukraine and Hungary. Based on the positive experience, we plan to extend the list of topics to be audited. The practice of performing parallel audits carried out with the participation of several SAIs, often focusing on a limited area, is becoming increasingly important in international cooperation.

EU accession and auditing

Hungary is a member of the European Union. The EU is interested in the existence of such external audit organisations in the new Member States whose legal status and audit procedures are in line with the internationally accepted standard; whose functional and financial independence from the executive branch prevails; who are mandated to audit the overall public finances, the utilisation of EU subsidies as well as payments to the Community; and who are able to participate efficiently in the protection of the financial interests of the Community.

Considering the common objective, i.e. the improvement of the complex audit system of EU funds, the professional cooperation between the European Court of Auditors and the Member State SAIs strengthens. In addition, it is a legal obligation of our institution to assist the on-site audits carried out in Hungary by the European Court of Auditors.

We prepare an annual information report on the experience gained in the course of auditing the utilisation of EU funds for the National Assembly and the institutions of the European Union, which contains not only the factual knowledge of the SAO, but also of other national and EU bodies.

