

Mr. László Domokos
President of the State Audit Office of Hungary
62nd Meeting of the Governing Board of INTOSAI

Dear Colleagues,

Ladies and Gentlemen,

Upon the request of my distinguished colleague, Dr. Moser, it is my pleasure to inform you on the recent developments concerning the independence of the State Audit Office of Hungary.

In Hungary, the first decade of the 21st century was characterised by permanent budgetary overspending and the drastic increase of public debt. This could not be prevented by either the State Audit Office of Hungary, or by other independent public institutions, therefore changes needed to be made and new rules needed to be laid down.

In the framework of these developments, recently there have been several changes concerning the structure, the mandate and the independence of the State Audit Office of Hungary. Parallel to these developments in Hungary, the independence of SAIs has been very topical within the INTOSAI Community as well.

The new Act on the State Audit Office of Hungary entered into force on 1 July 2011. The act brought noticeable changes in Hungary, extending the audit mandate of the SAO, making its work even more transparent, and significantly strengthening its independence.

The new act kept the ‘audit office’ type character of the institution, but - contrary to the previous practice – it makes the cooperation with the SAO obligatory and provides strong guarantee thereto by sanctioning the omission of this obligation. The purpose of the SAO’s strengthened powers is to ensure that audits do not remain without consequences for those not acting in compliance with law. The new Hungarian legislation stipulates that in the course of the audits the audited entity shall provide the information necessary for the audit. Another significant change is that they are also obliged to prepare an action plan based on the recommendations of the SAO.

The above is in line with the Mexico Declaration of INTOSAI which stipulates that ‘a sufficiently broad mandate and full discretion’ should be ensured for SAIs for the performance of their tasks, which means ‘timely, unfettered, direct and free access to all the necessary documents and information’.

As a new element, the act specifies also the principle of good governance. The new act makes it possible that in case of minor infringements and wasteful practices, the President of the State Audit Office of Hungary may address a warning letter to the head of the audited entity, who is obliged to take the

necessary measures. This is followed by an instrument already ensured previously, which protects public funds in a preventive way. The President of the SAO may initiate the freezing of the available funds of that entity or even the suspension of the payment of state subsidies.

The independent operation is indispensable for the efficient work of the SAO. In this respect, the new Act on the SAO represents a significant step forward. Strengthening the independence is in line with the Lima and Mexico Declarations of INTOSAI and the declaration adopted by the VIII EUROSAI Congress in June 2011. According to INTOSAI standards, SAIs have to determine freely their priorities, work programme, organisational structure as well as the methods appropriate for the audits to be carried out. International standards stipulate also that the legislative body shall provide 'sufficient resources' for the Supreme Audit Institution. The Mexico Declaration states that the executive power should not control or manage the access to resources.

The new Hungarian legislation follows the above principles, as it contains several provisions which guarantee independence. The act stipulates that the budget of the SAO shall not be reduced in nominal terms from one year to another, and additional tasks can be given to the SAO by law only if the necessary financial resources are provided. Financial independence is also guaranteed by decoupling auditors' remuneration basis from civil servants' salary. The act links the salary of auditors, (who are subject to strict rules on conflict of interest), to the level of monthly average gross earnings of the national economy. That makes changes in the remuneration basis automatic, so it prevents the Government from interfering. Another guarantee for independence is that the act stipulates that the professional rules and methods of audits carried out by the SAO should be established by the SAO itself.

The Act on the SAO attaches particular importance to the issue of transparency, which is also in line with international standards and follows the principles defined in the relevant INTOSAI documents (ISSAI 20 and 21). The new Hungarian act stipulates that all SAO reports are public, thus all stakeholders and all Hungarian taxpayers have the right to learn about the findings of the audits. It is also for the purpose of transparency that the SAO has to make public its audit methods and the applied professional rules.

We believe that independence is an essential factor in the effective activity of an SAI, therefore we are striving to maintain and develop forward the independence of the State Audit Office of Hungary. In this respect we hope that we can show an example to be followed for other SAIs as well.

Thank you for your attention.