

Summary
of the Activity of the State Audit Office in 2001, major findings and conclusions brought to the attention of the National Assembly (0214)

In 2001, through its resolution 29/2001. (V. 11.) OGY, the National Assembly asked SAO again to pay close attention to audits fostering the modernization of the public finance system. Therefore, in addition to the annual audit findings, SAO brings its (still topical) proposals repeated in its previous reports to the attention of the National Assembly and the Government with the intention of improvement.

Several positive changes can be observed in the operation of the public finance subsystems. The SAO audit and the utilization of experience also contributed to the implementation of these changes, although there were problems in the utilization of experience.

Therefore, it is worth pointing out that **a trend of improvement can be observed in relation to the quality of the financial management and task completion by budgetary institutions, to compliance with the legal, financial and regularity requirements, first of all due to the operation of the Treasury.** However, the overwhelming majority of recurrent flaws discovered in the operation and financial management of certain public finance subsystems, and the provision of public services can be attributed to **problems within the system.**

This explains why the audits are forced to raise again and again the problems arising from the lack of the unanimous definition of scopes and powers, objectives and tasks to be performed, the deficiencies of the management, financing, information and reporting system, the weaknesses of management/leadership, feedback and internal control.

The comprehensive regulation of the financial management of the institutions (accounting policy, inventory, evaluation of assets and resources, management of funds), the updating of existing regulations, is **incomplete** at most institutions of the chapters. In relation to the authenticity of the budget report, **the insufficient regulations of financial management and the inadequate level of development and operation of the system of internal management and control** – which also appear as criticism in the annual country reports of the EU – constitute **risk factors.**

The entire text of the SAO report on the audit of internal controlling mechanisms is available in English, too due to international interest and the interest shown by the European Court of Auditors.

SAO has **several times reiterated its proposal regarding the development and introduction of a standard, public sector audit system.** The

elaboration of the public sector audit system anew, and the introduction and use thereof in compliance with the current requirements is one of the preconditions to ensure the transparency of funds managed by the central budgetary subsystem of public finance, and to fully control the closed system thereof.

The audit concerning the social security subsystem concluded that enhancement was achieved in bookkeeping, in the reliability of settlements, and in the accuracy of records. In contrast with the former years, the audit of the budget reports of the funds was concluded with a comprehensive authentication clause. However, no enhancement could be observed regarding the financial standing of the entire subsystem. Actually, **its position to achieve a balanced budget weakened.** The revenues yielded by the social security subsystem itself do not cover the expenses of pension and health insurance.

Although significant steps were made, the comprehensive reform of the entire social security subsystem of public finance was not carried out in 2001, and the concept using standard professional and financing principles for the modernization of the provision system (first of all that of the healthcare system) was not worked out either.

Local governments fulfilled both their mandatory and voluntary tasks and ensured the operation of their institutions. However, this required tightening of the conditions of their financial management. For this reason they continued to downsize and rationalize the institutional structure, and introduced treasury type management locally. The measures taken in the interest of changes were not satisfactory. Half of the audited local governments functioned under deteriorating financial conditions. In connection with the local governmental subsystem of public finance it should be pointed out that it is in the interest of the whole society to enhance the efficiency of the so called large provision systems. **Within this, it is particularly important to improve the efficiency of education and healthcare services, by defining the roles to be assumed by the local governments and the business sector.**

In the past ten years no comprehensive review has been performed regarding the financial regulation of the local governments. For the time being, one third of the local governments suffer from shortage of funds, and the number of such local governments is on the increase. This draws attention to the fact that **the reform of the resource regulation system cannot be delayed any longer.** Our experience shows that the handling of this – not only support related – issue also requires the development of regional development, employment and job creation policies, and the provision of economic means is indispensable for such work.

The introduction of normative financing, the reinforcement of task financing, the refining of auxiliary mechanisms, the repeated amendment of the tax system, and the measures taken in the interest of the coordination of funds **did not result in a considerable shift in the field of regional equalization**, in the improvement of the financial equilibrium of the local governments, in the fulfilment of public service tasks, and in the efficient use of state funds.

From the beginning of the system's operation, most of the audited local governments faced problems in producing own resources for local governmental investments to be implemented with state support, i.e. with labelled, and especially targeted subsidies. Each year SAO reports pointed out the unfavourable phenomenon, which was indicated by the level of unused support at year-end. **In the period between 1998 and 2000, unused funds amounted to 40 to 50%**. The most important cause behind this was that the local governments had been – fully or partially – unable to ensure own resources required for the investments. In producing own resources, local governments counted on the separated state funds, and then on support that could be granted from the so-called chapter-managed appropriations. However, these applications were evaluated differently from the targeted subsidies – both in terms of time and system – as SAO indicated in the previous years.

One of the paramount elements of more efficient public services is the professionally excellent, comprehensive and transparent implementation of investments, procurements and services in the entire public sector. **The most significant tool to ensure transparency is the system of public procurement**, which is an important preventive condition in the fight against corruption.

Although the local governments and the central budgetary organizations undertook public procurement procedures in increasing number and value year after year, their participation in the processes, **the value of their procurements realized in the framework of public procurement procedures is considerably below the value that could be expected based on the amount of public funds realized in this sector.** However, it is favourable that the number of closed tenders (negotiation processes without announcement) dropped to the level typical in the EU member states.

The slower and more contradictory proliferation of public procurement procedures and the deficiencies observed can first of all be attributed to the unpreparedness of the users of law, the different interests and approaches. Our experience has also reinforced that the problems arise from the contradictions of provisions pertaining to the regulation of public finance financing, and the uneven practical solution thereof. SAO has made several critical comments on the regulatory and institutional system of public procurement, and the operating mechanism thereof. However, the findings also reinforce that **the act does work with all its flaws awaiting correction.** SAO first of all proposed the use of regulatory solutions the aim of which was not to make the law more stringent in general, or to narrow the leeway for the operation of law, but to more efficiently enforce the current regulations, and to make the boundaries of their validity more unanimous.

The new cooperation of the public and the private sectors, the restructuring of public service systems and organizations are aimed at enhancing the efficiency of the public sector. In the course task performance, efficiency is more important than the task performer. However, the method, content and extent of the state's involvement should be defined. **The development of the institutional system, the funding of tasks, the increasing involvement of the private sector also require new control conditions, and in addition to controlling the regularity of financing, performance audit is more and more required.**

International audit institutions, including SAO, should adjust their audits to the more and more widely accepted and used method of task performance, which involves private enterprises in the implementation of public services and investments. **Within the current restricted powers the path of public funds cannot be traced to the final user.** What is more, this problem occurs even in the case of companies in indirect state ownership, and companies owned by the local governments. Therefore, audits of the use of public funds are hardly able to detect and help eliminate the concrete errors and professional mistakes that have occurred, due to which the correctness of certain procedures have been questioned.

The content of the Treasury assets, the asset management, financial management and controlling tasks of the Treasury are regulated, however, for the lack of a standard assets law an unclear operational environment has evolved. The development of a system suitable for the full-scale registration of treasury assets has commenced, however there exists neither a standard, state-level registration system of state assets, nor an authentic, true assets registration system at the managing organizations.

The system of the management of treasury assets has not been restructured in a comprehensive manner, the standard assets law has not been elaborated, and the strict enforcement of management discipline has not been realized.

The tasks of SAO related to the audit of the financial management of political parties, social organizations and public foundations, as well as of the financial conditions of the elections are all linked to the transparent operation of the system of democratic institutions and the civil sector to ensure the public's trust and confidence.

The audits of parties, national minority associations, as well as funds used for general and by-elections revealed several deficiencies arising partly from the lack of regulation, and partly from the lack of coordination of regulation.

The act on election procedures does not define the concept of election campaign, election costs, including real costs, and neither does it define the payment unit for budgetary subsidy payments. The actual campaign period may differ from the campaign period defined by the law, and the period that can be taken into account financially. The law does not define the form in which funds used for the elections and the origin thereof should be made public, and neither does it define how and to what extent in-kind contributions to the election campaign should be taken into account among the election liabilities and expenditures. For the lack of a mandatory standard, the form and content of accounts (reports) disclosed by the parties did not give a uniform picture. The Act does not stipulate sanctions in case the obligation to disclose the election costs in the Hungarian Gazette is not fulfilled.

The findings reiterate the necessity of amending the acts on parties, elections and accounting, as well as the government decree on the rules of procedure of the public finance system, which has been claimed for several years. We are aware that this issue is on the agenda of the National Assembly, however SAO finds that acceleration of this work is extremely urgent.

The medium term findings of SAO audits covering several years can be summarized similarly to the findings of the annual report, especially due to the above-mentioned deficiencies.

The results and problems of implementing the wide-ranging audit experiences, recommendations and proposals let us conclude that the errors, deficiencies and contradictions revealed by the audits (too) **cannot be considerably and permanently eliminated without the acceleration of the larger scale restructuring and reform of the financial system and the public finance system in line with the EU requirements.**

SAO is well aware of the fact that the reform processes of the public finance system cannot be completed within one governmental term. Based on audits spanning several years, we draw the National Assembly's attention to the above proposed changes again for implementation.