
REPORT

on the activity of the
State Audit Office in 2002

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ANNEXES

The number of reports prepared by the State Audit Office in 2002 (Annex 1)

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APPENDIX

Summary of the experiences gained through the audits completed in 2002.

Report

on the activity of the State Audit Office in 2002

In accordance with the practice followed for more than a decade, the financial and economic audit organ of the National Assembly (Parliament), the State Audit Office (SAO), gives an account of its legal obligations performed in 2002 and of the developments in the major processes related to the operation of the institution. The report pays special attention to the presentation of both the utilisation of the recommendations made in the audit reports and also of the measures taken in view of the recommendations.

The National Assembly has debated the reports made in the past five years. It has become a practice that the resolutions of the National Assembly approving the reports also give direction with respect to the future activity of the organisation. In addition to approving the work, these decisions have also confirmed the strategic guidelines related to the audit activity and to the development of international relations; they have substantively contributed to creating the conditions necessary to discharge the duties set forth in the strategy and to implement the requirements of financial audits complying with European standards.

The annual activity report provides an opportunity for the SAO to gather together the most significant elements of its annual audit findings. The summarising, reporting character makes it possible to present to the National Assembly the audit experience related to the operation of the various fields of public finance in a systematic manner, paying attention to both the processes and the measures taken. Contrary to the reports on the different audit tasks, the annual report, by way of information, also provides a picture to the Honourable Members of Parliament on the most important characteristic features of the developments related to the institutional system, human resources, the network of relations and the communication activity of SAO.

This report consists of three structural units. The first one renders an account on the audit activity of the institution, on the development of the quality of audit activities, as well as on the operation and the financial management of the SAO. Part two (annexes) surveys the major characteristic features of the reports prepared in the course of 2002, their consideration by the parliamentary committees and the utilisation of the recommendations. Part three (appendix) presents a brief summary and the most important findings of the audit reports.

In the framework of its annual financial statements, the SAO also provides separate, detailed information to the National Assembly on its financial management in 2002 . Before their presentation, the financial statements are audited by a Hungarian auditor company selected through tender procedures.

1. ACTIVITY OF THE SAO IN 2002

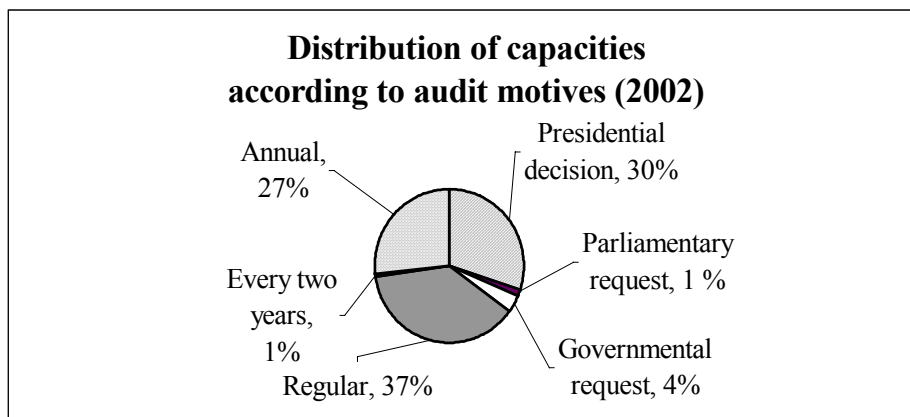
1.1. Focus points of the audit activity

In 2002, as in previous years, the SAO, with the intention of offering assistance in preventing irregularities and avoiding their recurrence, performed its activities in accordance with the provisions of the audit plan approved by the President and debated by the Audit Committee.

In 2002, the auditors performed work on a total of 61 audit topics, of which 34 were concluded, thus the SAO published 46 reports, including the 12 reports on audits concluded in 2001 but only published last year. The implementation of the audit plan for 2002 is shown in Annex 1.

As of 1 January 2002, the SAO performed its activity in a renewed institutional framework, which has been more closely adapted to the tasks and audit methods. In 2002, a total of 52,040 auditor days were required to carry out the performed tasks.

65 per cent of the audits concluded in 2002 were prescribed by audit obligations stipulated in various laws for annual, two-yearly or regular implementation.

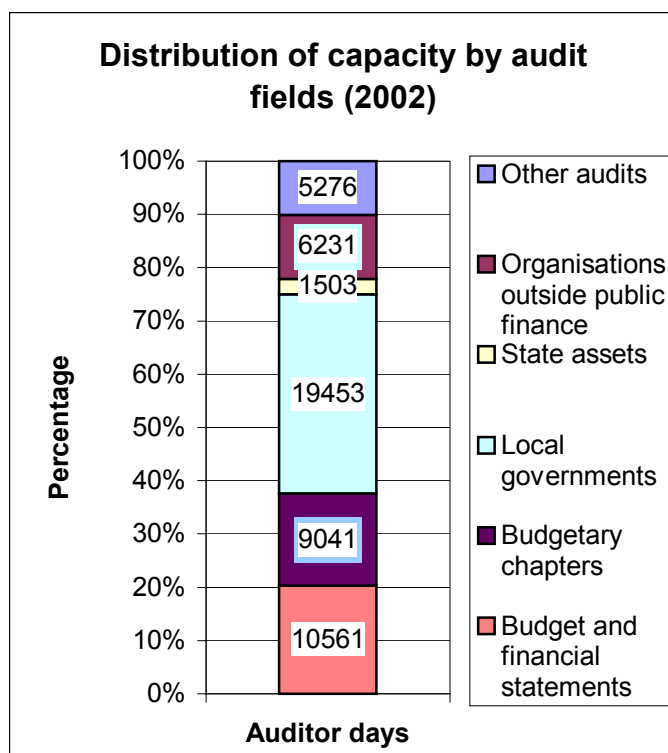


The characteristic features of the reports published in 2002 (the subjects and the numbers of the reports, the directorates preparing these reports, the legal basis, reason and aim of the audits, budgetary size) are contained in Annex 2.

The tasks set by **annual audit obligations** (opining the state budget and auditing its financial statements, the regularity audits of the application for and the utilisation of state subsidies connected to the implementation of the local government tasks, as well as the audits on the operations of the ÁPV Rt. [*Hungarian State Privatisation and Holding Company*] and the MTI Rt. [*Hungarian News Agency*]) figured first among the

audit tasks of the SAO. With respect to these fields, (of which the audit on budget implementation for the year 2001 represented the largest burden, requiring nearly 14 percent of the annual SAO capacity), 7 audit reports were prepared.

According to point 3 of Parliamentary resolution No. 69/2002. (X. 4.) OGY on the SAO activities in 2001, the National Assembly considers it necessary to gradually expand the audits qualifying regularity when budgetary implementation is audited to make them comprehensive and, in order to achieve this, to develop these audits into a unified and closed system relying on budgetary supervision. The resolution expressed the need to strengthen the supervisory machineries of the ministries and to adapt the controlling and checking activities of the Government to the audits of the State Audit Office.



In the category of obligations to be implemented **every two years**, the financial management of two political parties was audited in 2002, but the publication of the audit reports was carried over to 2003.

In the category of **regular audit tasks**, 11 audit reports were prepared.

These tasks included audit obligations where the law stipulated for 'regular' task fulfilment, as well as obligations where the law does not provide for any frequency for task fulfilment, but where the task cannot be interpreted without taking frequency into account.

In the field of regular audit tasks the State Audit Office performed comprehensive audits going back several years on 7 budgetary chapters and, furthermore, it summarised and published the experience of its fieldwork carried out in 2001 in 195 local governments and 81 local minority councils.

Based on its authorisation under Act LVIII of 2001 on the National Bank of Hungary, the State Audit Office audited the operations of the central bank for the first time.

Of the audits falling **under the authority of the President of the State Audit Office**, 24 audits were completed in 2002. The implementation of these tasks required 30 percent of the annual audit capacity of the SAO.

In 2002 there were 4 reports, the preparation of which was **provided for by parliamentary resolutions or was requested by the Prime Minister on behalf of the government**¹. Three of them were not included in our audit plan, while the fourth one, the screening of the SAPARD Office before accreditation, was carried out in accordance with the plans.

Our strategy was renewed in 2002. Its most important characteristic features were presented in our annual report for 2001. The renewed strategy is directed first of all to circumspectly explore the economic, financial and democratic risks and, taking these into account, to perform audits by concentrating capacities, which are rather narrow in view of the practically ever-increasing tasks, on the most important fields and processes by relying upon the 40 percent of our capacities (taken as an average over several years) left after discharging the unavoidable audit duties following from legal obligations.

Starting from the primary intention to use this relatively 'free' part of our capacities efficiently, when developing our audit plan for the year 2003 we deliberately endeavoured to choose topics that would make it possible to survey the factors influencing the security of the operation of the national economy, primarily that of public finance. Here, **security is interpreted in concentration on its influence on the regular development of financial processes in line with aims and objectives, on the quality execution of proper duties and primarily in concentration on the influence of given activities on public sphere operations and on the major financial processes.**

¹ Opinion on the foundation and justification of the claim of the Hungarian Television Company for budgetary subsidies in the year 2003; Opinion on the foundation and justification of the claim of the Duna Television Company for budgetary subsidies in year 2003; Report on auditing the expenditures related to personal protection in respect of rebuilding the real estate designated by the Government as permanent accommodation to the Prime Minister; Report on the pre-accreditation screening of the institutional system established to implement the SAPARD Programme and to pay the subsidies.

In order to be able to present the situation of the local governments as completely as possible, it is our endeavour **to perform an audit on each local government at least once in every parliamentary cycle** in the framework of a comprehensive, regularity or performance investigation.

In the future, the most important task of the SAO audits to be performed on the local governments will be to carry out comprehensive audits. In 2002, nearly half of all the local government audits consisted of so-called comprehensive audits (which include the elements of both regularity and performance). These audits have a double objective: on the one hand, they aim to offer direct help to improving the efficiency of the financial management exercised by the local governments with the proposals addressed to the municipalities and, on the other hand, to provide a picture of the system to the National Assembly on the operations in this field. Within the framework of performance audits, the audits of nearly 300 local governments operating at the county level, the town level, and in the districts of Budapest, having a budget or a stock of assets of a considerable magnitude, will continue to have special attention.

To modernise the audits of local governments and to ensure wider publicity, we plan to publish, in addition to the summary reports on the comprehensive audits held on the financial management of local governments, which have already been institutionalised, the audit experience gained with respect to the individual local governments of Budapest, the various districts of Budapest, the counties and the towns with county rights, that is to say, the experience obtained in respect of the local governments performing financial management with considerable financial risks.

From the points of view of maintaining social stability and the development of public confidence, it is especially important to make as widely accessible as possible the data of general interest on the utilisation of public moneys and on the use of public property, to make them public, and to ensure that this endeavour could not be wantonly limited by recalling the requirement of keeping business secrets.

The modernisation of the financing of public spending, and the endeavour to ensure that public services operate in a sector-neutral and more efficient manner result in **an increasing number of public duties and an increasing amount of public money leaving the framework of the institutions and companies financed from the state budget. In 2002, the accompanying audit-authority and audit-organisation problems became marked.**

In respect of further opportunities to use our audit experience, it is important to note that at present an initiative is in process related to promoting the publicity of the use of public moneys and public property, to make that use more

transparent and, in the interest of promoting this, to widen the audit authority of the SAO. According to the provisions of this bill, the SAO would receive a public law authorisation, based on which it would, with its audits, be able to follow the route of public moneys and public property up to their final utilisation, up to the partners being in contractual relations with the contractors and up to every economic organisation co-operating in the fulfilment of the contracts irrespective of the forms of ownership concerned.

We can meet this expected future professional challenge if we concentrate our audits on major investments, including the motorway constructions, and on the undertaking of considerable state guarantees, while not forgetting about tasks such as the audits of privatisation of health care, going on with legal authorisation.

1.2. Discussion of the reports by the National Assembly, resolutions, and relations with the National Assembly

The activity of the SAO is primarily in the service of assisting the National Assembly carry out its complex tasks which carry great responsibility. In view of this, and relying upon the encouragement received from the leaders of the National Assembly, and paying attention to their needs, we strive to contribute to the work of the Members of Parliament by submitting new practical initiatives on a continuing basis.

For example, we solicit the opinion of every parliamentary committee for the elaboration of the annual audit plan, and we not only prepare audit reports, but also transmit the audit program to the Information Centre of the Members of Parliament, thus they are accessible to the Members of Parliament via the electronic network of the Parliament. At the beginning of the new cycle we put complex introductory booklets and information sheets at the disposal of the Members of Parliament, with special regard to the preparation of the new Members of Parliament to carry out their responsible activities.

Carrying on the practice initiated in the previous parliamentary cycle, the President of the SAO initiated personal consultations with the officers of the National Assembly and with the leaders of the parliamentary panels. Upon the initiative of the Speaker of the National Assembly, at the September meeting of the committee chairmen, the President of the SAO gave written and oral information to the participants about the strategy of the SAO, its current tasks, the audits completed so far in the given year, about the on-going audits, the importance of considering and, especially, of utilizing the reports and, furthermore, about the possibilities of developing co-operation.

Backed by the committee chairmen and the House Committee, our endeavours were embodied in, and their implementation was pro

moted by a co-operation agreement signed by the Secretaries-General of the National Assembly and the SAO. The major proposals of the State Audit Office related to amendments of the laws, and not yet implemented were included in the publication of the National Assembly entitled 'Register of the tasks and deadlines specified by the National Assembly', similarly to the proposals put forward by the Civil Rights Commissioner of the National Assembly. Consequently, it will be possible to monitor the proposals of the State Audit Office along the lines put forward in the country report of the European Commission for 2001. Thus, carrying on the practice of our previous annual report, our proposals made in the course of audits, the implementation of which is still pending, proposals that we consider important, are included in Annex 3.

With a covering letter summarizing and highlighting the most important audit findings we have submitted all our audit reports to the leading officers of the National Assembly and the Audit Committee, as well as to the chairmen of the Committee on Budget and Finance, the Economic Committee and the other committees concerned. The main issues related to the different audit programmes and the various audits have also been made available to the specialist committees of the National Assembly so that the performance of SAO audits, their orientation and the most important features of the work should be transparent to them, and in order to make it possible for the National Assembly to appropriately exercise its control function with respect to our organisation too.

Reacting to a recent demand of the Members of Parliament, the SAO provides its reports, wherever it is possible, with inter-text references, with references to its previous reports, while it continues to enumerate the titles of the published audit reports connected to the given subjects.

In 2002 10 reports of the State Audit Office were included in the agenda of various committees and, in addition, the audit report related to the SAPARD programme (signed by the Director-General) was also included in the agenda by the committees. This is considerably more than the number of reports considered in an identical period of the previous parliamentary cycle. In addition to the consideration of the reports by the parliamentary committees, the leaders and the experts of the SAO participated in the meetings considering the agenda items related to the audits of the SAO, and took the floor.

The annual report of the SAO was considered by 3 committees. *The Plenary Meeting approved the draft resolution of the Audit Committee without any abstentions or votes against.*

Practically every committee considered the report on the annual financial statements for the year 2001 and the opinion on the budget for the year 2003.

Connected to the plenary agenda, the Economic Committee discussed the report on the audit performed on the implementation of the solid waste management tasks of the local governments of settlements. During the consideration of the audit report on the system of resorting to, and utilisation of, labelled and targeted subsidies provided in 2001 for the investments and reconstructions of local governments, it was decided to set up an ad hoc working group to review the operational disorders of the system of labelled and targeted subsidies and to promote the modification of the legal regulation.

In addition to the annual report, the report on the annual financial statements and the SAO opinion on the budget, the Plenary Meeting also included in its agenda the reports of several organisations with an accounting obligation, which had not been debated before. This is how the reports of the MTI Rt. for the period 1997 -2001 and the related SAO reports were also considered.

During the discussion on the reports of the Board of Trustees of the Magyar Televízió (Hungarian Television) Public Foundation and the Board of Trustees of the Hungária Television Public Foundation for the period 1997-2001, by accepting the draft parliamentary resolution put forward by the Committee on Culture, the National Assembly invited the SAO to perform targeted audits on the foundation and justification of the requests for budgetary subsidies put forward by the Hungarian Television Corporation and the Duna Television Corporation for the year 2003. Based on the decision of the National Assembly the SAO has performed the two targeted audits. In February 2003, the Speaker of the National Assembly made a special request to the Committee on Budget and Finance and the Committee on Culture and the Media to put the referenced opinions on the agenda, in view of the topicality of the proposals formulated in the audits.

The Committee on Budget and Finance established a subcommittee to supervise the public service media and the related public foundations, and requested the SAO to perform audits in respect of the MTV [*Hungarian Television*], the Duna TV, and the Hungarian Radio.

In the field of the parliamentary contacts of the SAO, the Audit Committee has a decisive role, the committee that, in addition to the reports connected to the agenda of the Plenary Meeting and in accordance with the developed practice, has debated the draft audit plan of the SAO for the year 2003. Paying attention to the need of the Audit Committee, the study on the social and economic features of corruption and on the possible role of the State Audit Office in holding back this harmful phenomena, as well as the analysis elaborating the question of resource and task management in the system of local governments were published in 2002, in line

with the provisions of the SAO strategy. Most recently, a similar study has been prepared on the topic of local taxes and dues. In 2003 this service will continue with the preparation of an evaluative analysis on the process of privatisation and on its most important macro-economic relationships, relying on and processing our earlier reports. Forwarding the notes on SAO operations, the memoranda of presidential meetings, the texts of presidential resolutions, the reports and other debating materials served the purpose of providing continuous information to the Committee.

The management of SAO reviewed the experience gained in respect of the operation of the restructured organisational-managerial model in a period of one year, and informed the Audit Committee of this. The development of the institution was implemented along the lines of the principle 'to renew by retaining'. The new organisational-managerial system operates in accordance with the provisions of the conception. The modernisation of the organisation of work and the processes of control, as well as the related organisational transformations create improving conditions for the steady development of the various SAO audits, for increasing their efficiency by retaining the earlier achievements and time-tested methods while adapting to the changing and broadening tasks and to the requirements of the audit profession systematised in the member states of the European Union. This model also made it possible for the organisation to remain operational without Vice-Presidents.

In the form of a presentation the Committee was informed about Internet public relation opportunities starting in 2003.

During last year there was a further broadening in the non-traditional audit tasks of the State Audit Office. As a result of the amendments made to the Act on the Hungarian Development Bank, the entity exercising proprietary rights shall in future appoint an auditor recommended by the President of the SAO to audit the Hungarian Development Bank. According to the Act on the Tax and Financial Control Administration [APEH], the President of the SAO shall give an opinion about the candidate for the post of APEH President before his appointment.

Indicative of the increasing attention of the National Assembly is the fact that, in addition to its decisions made in the course of considering the reports in the Plenary Meeting and in committees, the Members of Parliament, acting on different motivations, made references to the findings and proposals included in the SAO reports at about half of the total number of Plenary Meetings. The record of the SAO reports included in the agenda of the committees and of the committee and plenary decisions are summarised in Annex 4.

1.3. Experiences considered to be of general validity based on the audits of 2002

The contents of this report are based on the experiences included in the reports of 2002 and are intended to present the recurring phenomena, trends and interrelationships. We must note that, due to the special features of the financial processes, a part of the audits performed in 2002 relies on financial data closed in 2001 or prior years. However, we try to present these data in a way that allows clear deductions to be drawn regarding the processes of public finance in 2002 and that also allows the presentation of the most recent experiences.

In table 1, by way of information and in order to indicate the long-term changes of the relative sizes and proportions of the expenditures, the public finance expenditures are presented in respect of some large providing systems as a proportion of the GDP and of the total public finance expenditures. The data demonstrate that, for the time being, the lagging of structural changes is characteristic of the expenditures in the longer run too.

Table 1

Public finance expenditures with respect to some large providing systems as a percentage of the GDP and of the total amount of public finance expenditures

	1991			1995			2000			2001		
	GDP: 2498.2 (bln HUF)			GDP: 5614.0 (bln HUF)			GDP: 13 150.8 (bln HUF)			GDP: 14 876.4 (bln HUF)		
	Expenditures, billion HUF (current prices)	Percentage of the GDP	Percentage of total public finance expenditures	Expenditures, billion HUF (current prices)	Percentage of the GDP	Percentage of total public finance expenditures	Expenditures, billion HUF (in current prices)	Percentage of the GDP	Percentage of total public finance expenditures	Expenditures, billion HUF (current prices)	Percentage of the GDP	Percentage of total public finance expenditures
Defence and the maintenance of public order	89.3	3.6	6.3	140	2.5	4.7	357.5	2.7	5.8	433.9	2.9	6.4
Public administration	66.3	2.7	4.7	145.7	2.6	4.9	579	4.4	9.4	642.5	4.3	9.4
Healthcare	124.6	5.0	8.9	245.9	4.3	8.3	552.1	4.2	8.9	623.1	4.2	9.1
Pensions	262.8	10.5	18.7	491.1	8.7	16.7	1051.4	8.0	17.0	1213.4	8.2	17.8
Elementary and secondary education	92.7	3.7	6.6	161.8	2.9	5.5	262.2	2.0	4.2	309.4	2.1	4.5
Higher education	42.9	1.7	3.0	83.8	1.5	2.8	193.2	1.5	3.1	227.7	1.5	3.3
Environmental protection	17.9	0.7	1.3	42.8	0.8	1.4	102.8	0.8	1.7	141.9	1.0	2.1
Transport	30.2	1.2	2.1	87.8	1.6	3.0	253.5	1.9	4.1	227.8	1.5	3.3
Total	726.7	29.1	51.6	1398.9	24.9	47.3	3351.7	25.5	54.2	3819.7	25.7	55.9
Other public finance exp. Total expenditures	682.4	27.3	48.4	1555.5	27.7	52.7	2834.2	21.6	45.8	3006.9	20.2	44.1
Grand total	1409.1	56.4	100	2954.4	52.6	100	6185.9	47.1	100	6826.6	45.9	100

Note: The table was compiled by using the data developed by the Ministry of Finance.

1.3.1. The sub-system of the central budget

In 2001 the **central budget** realised more **direct revenues**² than in the preceding year, although among the special tax categories falling under the authority of the APEH it was only the corporation tax of economic organisations that exceeded the amended appropriations. The revenues from the VAT and the personal income tax fell somewhat short of the appropriations, in which various factors: changes in the legal regulation and the effects of improving the levying of taxes equally played a part.

From the letting of treasury assets into concession, in 2001, the central budget had concession fee revenues by virtue of two titles (in connection with the infrastructure and auction, and from gambling casinos). The amount of the revenues was less than one-fifth of the appropriation. This considerable lagging behind the appropriation originated primarily with the revenue appropriations related to infrastructure and auction due to the postponement of payments and the late invitation of tenders.

In 2002 we formulated a picture on the regularity, expediency and effectiveness of the distribution and utilisation of budgetary resources based on the completed and published comprehensive audits held on 7 budgetary chapters³ for the period extending from 1998 to 2001, on the audit performed on the annual financial statements for the year 2001, as well as on the opinion formulated with respect to the budget bill for the year 2003⁴.

The work that began in the reform process in preceding years in respect of public finance was carried on. Experience shows that despite the measures taken, which were favourable in their effect, considerable backlogs continue to exist both as far as the direction and the rate of changes are concerned. Despite the positive steps, no substantive breakthrough has been achieved in respect of revising the tasks and their institutional frameworks, of ensuring harmony among the aims, tasks and resources, because at present we are not in possession of a strategy, which would provide a firm basis for the complex reform of the whole field of public finance, a strategy that is matured, elaborated in all its details, and accepted by consensus. The chapters continued to refrain from undertaking initiative roles in the transformation of the institutional system in order to ensure the resources necessary to meet the economic conditions, although **the revision of the system of institutions and tasks** continued to receive special

² See point 2 of the Appendix.

³ See points 4 to 10 of the Appendix

⁴ See points 2 and 3 of the Appendix

emphasis among the planning guidelines. The field of public tasks financed from the central budget did not narrow. Due to the lack of overall strategic guidelines, the narrowing of the field of legal regulations with the aim of establishing harmony between the tasks and resources did not take place in the planning of the budget for 2003 either.

The changes taking place in the governmental division of labour in each cycle are accompanied by a reorganisation and sometimes a restoration of tasks among the various chapters (such as, e.g., in the case of information technology, transport, church affairs, or in respect of the problems related to the national minorities and the Hungarians living beyond the national borders). In addition to the requirements of 'profile cleaning', the restorations were also due to a changing judgement of the need for a tight or a not so tight governmental co-ordination. Typically, no stable organisational structures could be developed at the ministries that were permanently subjected to changes in their tasks, a fact which is detrimental to the control activities of the chapters, especially in the years of restructuring.

The changes in the division of tasks were not always followed by the building of an organisational direction and management system, the expedient development of the management and internal audit tasks. Instances of overlapping could be discovered in the definition of the tasks of, and the performance of these tasks by, the forums that were to prepare the different governmental decisions, as well as inconsistency and ill-advised procedures in the establishment of organisations for managing the budgetary resources provided to the chapters. The fact that, in addition to the existing system of resources established for supporting the development of settlements, the Ministry of the Interior, under the existing system of divided resources and sector management, did not have the necessary resources to coordinate the field of settlement development was also discovered in the framework of a comprehensive audit.

At the same time, the audits performed on chapter operations drew attention to positive changes too. For example, we found that the Act of 1994 defining the legal status and the tasks of the Hungarian Academy of Sciences⁵ helped the Academy to adapt, in a renewed form, to the changed social environment by only partially maintaining its earlier research structure. The structure and operation of the Academy has been renewed in practically every respect. In the fields of management, the preparation of decisions, decision-making and monitoring, the developed system, according to the opinions obtained at different levels of the audited organisations, operated well and in accordance with the regulations, objections were sometimes

⁵ See point 8 of the Appendix.

raised only on account of the slowness due to a multiple transfer of tasks.

The budgetary management of the 'constitutional' chapters (I-VIII) has been well-balanced from year to year. The amounts of public money they use represent only a few percentage points of the central budgetary resources, but the influence of these chapters points much further than that. While respecting their independence, their unified treatment, the direct determination of their annual budgets by the National Assembly, is justified also from the point of view of international presentation. The questions raised and the discussions taking place in connection with these chapters during the consideration of the budget act is different from those related to the other chapters. As it also showed in the course of the discussions on the budget for the year 2003, the governmental proportions are not applicable to the determination of the budgets for the constitutional chapters.

The development of the **budgeting process**⁶, the task of placing it on new foundations, also paying attention to the shortened period in the year of general elections, **is still a pressing task within the financial reform of public finance, which cannot be deferred any longer.** Similarly to the practice followed in previous years, we reported, as a shortcoming characteristic of the budgeting work, that the elaboration of more detailed institutional level appropriations, which would have been justified in order to put the appropriations on a more solid foundation, was not implemented. The supervisory organs of the chapters did not take any substantive steps to implement the government resolution on the directions of developing the financial system of public finance and on the development of a new organisational structure of the treasury system, which was valid in the period of budgeting for 2003 and also referenced in the budgeting circular, nor to elaborate different normative figures and task indicators that would facilitate the work of budgeting. No methodological guidelines existed to assist in the elaboration of budget plans, the chapters could only rely on their own imaginations. The rolling plans that met the legal requirements specified in the Act on public finance only formally, did not comply with the intentions of the legislators.

The budget system fails to specify the public tasks, the aims to be attained by the budgetary organs and the results expected from them. In the present accounting system the implementation of the aim-like appropriations does not appear fully. The National Assembly receives information only incidentally on the aims and the results achieved in the field of task fulfilment. In the absence of normative indicators, the expenditure appropriations of the budgetary organs carry ten

⁶ See point 3 of the Appendix.

sion in all their elements in comparison with the needs (personal benefits, real costs, accumulation expenditures, chapter-managed appropriations).

In respect of the **control of activities**, the statutes covered the whole field of operations and management for most of the audited organisations. Nevertheless, in the case of a smaller circle of organisations, we found that the internal regulations had not followed the changes taking place in the legal background fully or in good time. The regulation of the tasks and processes was incomplete and was sometimes non-existent; harmony between the internal statutes was not always established. Several years after the legally set deadlines we were still able to observe the lack of the institutional deeds of foundation or their shortcomings, and the lack of orderly official registers.

In respect of the regulations it must be noted that, although the legal background regulating in general the system of budget management exists, the field of legal stipulations paying due account of the different special features is narrower than it would be justified. In our comprehensive audits we drew attention to the fact that the legal regulation approving the specialities of chapter management had not been issued despite the government resolution making it compulsory for the respective entities, and despite the fact that the chapter concerned initiated it on a number of occasions.

Improvements can be seen in the levels of the **financial management** and task fulfilment **of budgetary institutions**, as well as in meeting the legal, financial and regularity requirements. Also in 2001, increases in the budget appropriations and their implementation were typical for the majority of chapters in comparison with both the base year and the original budget appropriations. At the chapter level, the amount of actual expenditures nowhere exceeded the amount of the modified budgetary appropriations.

More than 60 per cent of the annual operational costs continued to consist of personal expenses. The increase compared to the original budget appropriation was due to the subsequent salary increase implemented during the year as a result of the introduction of a new salary system for civil servants, the payment of a lump-sum salary supplement in the public sphere and to the excess expenditure incurred by the increase in the level of minimum wages, as well as to the subsequent coverage of certain expenses arising out of reductions in the working force.

The material expenses, although they increased in comparison with the original appropriations in the majority of chapters due partly to the modifications carried out by the Government and partly to those made under chapter authority, but the material automatism serving the requirements of maintenance and

operation fell short of the outgoing wages. It was already impossible to make use of the extra resources provided in the last days of the review period by virtue of a government resolution, therefore the formation of remainders was considerable.

Among the reasons for the shortfall in accumulation expenditures as compared to the modified appropriations, the late government resolutions, the long time required by public procurement procedures and the undertaking of obligations to perform certain tasks in the next year can still be mentioned.

In the field of asserting the implementation of chapter priorities **the chapter-managed appropriations** play an important role. Within them, the amount and proportion of the chapter managed appropriations drawn under task financing increased. Despite this, as the utilisations show, they could not fully play their part. As also been stated in the previous year, the remainder of chapter-managed appropriations (exceeding 40 percent in the case of some chapters) was considerable due to the dragging mechanism of decision-making in respect of their utilisation, the slowness of procedures, ill-founded preparations, the late ensuring of supplementary appropriations and the lack of planning.

The chapter-managed appropriations were typically used for the titles and purposes provided for by legal regulations and in a way that could be monitored and supported by analytic records. In the case of some chapters and chapter-managed appropriations it also happened, however, that the shortcomings in the rules of implementation did not ensure a unified and expedient utilisation, and the shortcomings that could be identified in the fields of coordination and the operation of the bidding system adversely influenced its expediency and effectiveness.

Most of the chapters did not meet **the revenue appropriations** contained in the budget act and amended in the course of the year, the overstrained nature of which had been indicated by the SAO in the previous year. Behind the incidental over-fulfilment of the institutions' own revenues unforeseen revenues, task modifications, financial carry-over and the resorting to the remainders from previous year due to the dragging over of professional tasks were concealed.

The differentiated nature of the **conditions of budget management**, due to the problems indicated in connection with budgeting, continued to exist. They tried to eliminate the temporary liquidity problems arising in the financial management of institutions partly by economising and by regrouping the appropriations, postponing task fulfilments and by employing different financial techniques. Instances of the lasting absence of financial equilibrium requiring consolidation had already been indicated in the framework of our comprehensive audits on a case by case basis (Ministry of Interior - Police Forces)

with respect to the previous years. The reasons for these instances equally included the failure to explore the economic effects of professional decisions, inadequate financing and the excessive undertaking of obligations in comparison to the available resources. As a result of the special government subsidies extended to various chapters, and of the withheld or postponed developments, the liquidity problems were able to be eliminated.

The liquidity problems and constraints could be traced back primarily to the fact that the annual budgets, as in the past, did not ensure full compliance between the tasks and their financing, and that the new tasks assigned during the year were not accompanied by an increase in the expenditure appropriations.

Despite the problems that had been indicated for years, there was no change in the time of approving **the remainders of budgetary provisions**⁷. The fact that the Ministry of Finance, despite the legal stipulations, delays in the fulfilment of its obligation to approve the appropriations can also be a source for irregularities. Consequently, it is also impossible for the supervisory organs to discharge their duties in this connection: the obligations to make the payments due to the central budget are met with more delays.

The **value of the assets in the possession of budgetary chapters** grew, albeit with great variance. The value of assets grew on account of a number of titles: investments, procurements, purchases, taking over assets free of charge; decrease in the asset value was most importantly due to the larger proportion of accounted depreciation, to the accounting of the recorded deficits following the giving over of assets free of charge (official quarters, resort and sports facilities) and, to a lesser extent, to sales, sorting out, and items found missing during stock-taking. The increases in the asset value were ensured primarily by budgetary subsidies and, in some cases, by PHARE assistance, but the receiving of assets free of charge also increased the value of the assets in the possession of some chapters. Increases in the value of assets took place primarily in the stock groups of real estates, machines, equipment and vehicles, but the stock of incomplete investments also represented a significant proportion. The properties that had become redundant or out of date were sold, with incidental exceptions, in accordance with the laws and internal regulations.

Due to the foundation of new companies (public benefit and limited liability companies), **the participation of the different chapters in economic companies** continued to broaden in 2001. At the same time, according to our findings, the dis

⁷ See point 2 of the Appendix.

charging of public duties in the company form and the exercise of the proprietary rights is not without problems. Several companies operating with different scales of chapter participation showed deficits. In this field we also identified cases of negligent property management entailing legal consequences, where we took the necessary legal steps.

Typically, the audited organisations observed the provisions contained in the **law on public procurements**. Incidental observations were made in the framework of comprehensive audits concerning the lack of harmonised, chapter-level regulation related to the institutionalisation and public procurement processes, and this shortcoming resulted in the use of different instrument types to solve a given task. Based on the Act on public procurement, the organs supervising the chapters prepared the 'Annual Report' on the public procurements made in 2001 within the set time limits, and sent it to the Public Procurement Council.

The reason for the spread of public procurements at a less than desirable speed, and with more contradictions, can primarily be traced back to the unprepared position of those applying the law, to reasons of attitude and, basically, to the successful assertion of group interests, the interests opposed to transparency. On the other hand, the lack of the timely synchronisation of financing from public finance and the not quite clear accounting rules also give rise to problems. Workshop activity on the harmonisation and development of the rules on public procurement and on the conditions to use the different subsidy systems (such as the systems of labelled and targeted subsidies to the local governments, the subsidies to environmental protection and entrepreneurial development, and the utilisation of EU resources) through applications and, among them, for establishing timely harmony among the possibilities of utilisation, which may seem to be a simple thing on paper, had already started in the previous governmental term of office. Many points in the regulations have already changed; however, further efforts would still be needed on the part of the legislators: it is necessary to speed up the work, to improve the harmonisation of social, economic and political interests in order to ensure that in the year 2003 practical changes can be recorded.

We have already signalled in the SAO reports for the preceding years⁸ that the mitigation of the risks of corruption was prevented by the fact that the limitations of authority and the bastions of the protection of business secrets raising unreasonable walls create a 'one-sided' situation. Under such circumstances the route of public moneys cannot be monitored up to the 'final user'. All this developed in a visible form: the budgetary institutions and the institutions of the non-profit

⁸ See the Report on the activities of the State Audit Office in 2001.

sphere have bought a constantly increasing proportion of public services from the business ventures of the private sector, and at the period of economic upswing increasing investments were made in the infrastructure. Financial audit was able to investigate everything in the public organs calling for tenders regarding public procurements, while with the bidders, the contracting and sub-contracting organisations it was able to audit practically nothing. **The legal initiatives under preparation will create the possibilities for favourable changes if the audits can be directed towards the most decisive items and financial constructions.**

The necessary headway did not take place in the field of the **internal audit of the budget** either⁹. With respect to the authenticity of the budget report and to the regularity of institutional operation and financial management, the inappropriate development and operation of the internal control mechanism and of internal audit represent risk factors. The conditions for budgetary supervision remain inadequate, the legal background of budgetary supervision also needs updating and amending. We have noted that the amendment to the legal regulation on the operation of public finance has also recognised the justifications of intermediary managing organs in the economy, the regulatory mapping of which did not take place in the implementation of budgetary supervision audits, paying due attention to the role played by the intermediary managing organs in the economy.

The pace of development in the system of internal audit satisfying the requirements of the new market economy was slower than it could have been, and its level of operation showed considerable shortcomings. The unfolding co-operation between the public and the private spheres, due to their not always transparent relations pointed out above, showed new dangers too. The organisation operating as a control organ of the Government was developed according to an operational conception which changed from one government cycle to the other, but always on the basis of an operational conception concentrating on ex post 'sanctioning' target audits. The development of internal (governmental) control is a requirement of the European Union. To change the situation, or at least to decide whether an internal control machinery belonging to a central, governmental cabinet should be accorded a primary role or, instead, the ministerial supervisory (internal control) organisations should be strengthened and prevention placed in the centre by building also on the experience of the SAO, as recommended in various EU documents¹⁰, is of primary importance not only from the point of view of a transparent operation of public finance but also in regard to directly reducing the risks of corruption.

⁹ See the Report on the audit of the internal control mechanisms operating in the field of the central budget.

¹⁰ See for example the European Commission's '2002 Regular Report on Hungary's Progress towards Accession'.

In harmony with the implementation of this latter conception and in the interest of modernising the system of accounting, when auditing the annual financial statements, we strongly endeavour to increase the number of **audits ending with a statement of assurance** based on the 'financial audits' introduced as an experiment four years ago. By performing financial audits we covered nearly HUF 300 billion of the expenditure grand total of the central budget, more than four times as much as in the previous year, and more than HUF 3,000 billion of its income grand total, one and a half times as much as in the previous year. In accordance with the objectives, in the framework of auditing the annual financial statements for 2001, taking into account the available capacities, comprehensive audits were performed on 8 chapters and 2 budgetary titles with chapter rights; financial audits were performed with the rest of the budgetary chapters when the administrative titles were audited. In the case of 8 chapters the reports of the chapter-managed appropriations and, in the field of the national economic accounts, the tax categories coming under the authority of the APEH [*Tax and Financial Control Administration*] and the customs and tax revenues handled by the VP [*Customs and Finance Authority*] were audited by this method¹¹.

Keeping in mind the principle of materiality, we found that the budget reports of the audited chapters and budgetary organisations (with the exception of one administrative subtitle), and the reports of the chapter-managed appropriations (with the exception of four chapters) met the legal requirements and appropriately reflected the property situation and financial status. The most frequent shortcoming found in the course of performing 'financial audit' type of audits was the lacking completeness and reliability of the analytic and other records, the absence of countersignatures on the undertakings of obligations, in some cases the absence of countersignatures on the remittances, and the wrong date of activating the material assets.

In its resolution No. 69/2002. (X. 4) on the activity of the SAO in 2001, the National Assembly, amongst other things, reconfirmed its earlier position, according to which it agreed with the application of this type of financial audit, which is in harmony with the requirements of the EU and is based on international audit standards. Furthermore, the National Assembly considered that in auditing budget implementation it was necessary to gradually broaden the scope of the audits qualifying the regularity of the reports so as to make it comprehensive, and that, in the interest of achieving this, it was necessary to develop this kind of audit in a unified, system-oriented way, relying upon budgetary supervision audits, and that it was also necessary to ensure the necessary resources in the budgetary appropriations for 2003 and 2004.

¹¹ See point 2 of the Appendix.

In view of the provisions of the resolution we have speeded up the preparation of budgetary supervision to acquire the know-how on the application of these methods and practices, and informed the financial government that the implementation of the task would likely require the provision of additional capacity. **However, the Government has taken no concrete steps to ensure the necessary conditions, which led to uncertainties with the different ministries.** In our judgement a further postponement of taking the government measures requested by the National Assembly would cast doubts over whether we will be able to qualify the reliability of the financial statements for the year 2004.

The generally applicable audit experiences summarised in the audit reports of the State Audit office for the year 2002 are in many respects identical with those formulated for 2001. The same or almost the same findings could again be recorded as previously with respect to the harmony between the budgetary tasks and the resources assigned to them, to budgeting, the extent to which financial management is regulated, the remainders of chapter appropriations, as well as to the level of development and operation of the internal control systems¹².

Based on the audit findings, and in order to eliminate the shortcomings experienced in the fields of planning, regulation and economic management signalled for a number of years, it is necessary to establish a system of state accounting (a system of budgetary accounting, a property register, the establishment of performance indicators and a system of balance sheets that would ensure full accounting in the field of public finance).

The experiences gained in connection with the structural modifications following from the change of government entered our findings as new elements. Due to their nature, the reorganisations and restorations emerging mostly in a cyclical way exercise, in general, an adverse influence on the continuity of work, as well as on the harmony between tasks, organisational structures and budgetary management; for this reason we invite those concerned to implement them more carefully, supported by revisions of tasks.

1.3.2. Segregated state funds

With the two segregated state funds belonging to this subsystem of public finance (the Labour Market Fund and the Central Nuclear Monetary Fund) we performed audits in the framework of auditing the annual financial statements for 2001 and the process of budgeting for the year 2003, in the course of which we appraised the factors determining their budget implementation, their complying with the legal provisions, the

¹² See the Report on the activity of the State Audit Office in 2001.

changes in their revenues and expenditures, as well as the special conditions of their operation¹³.

In accordance with the legal provisions, the reports of the segregated state funds were audited by an auditor who gave an unqualified opinion.

In respect of the segregated funds, the provisions of the Act on public finance were not implemented entirely. Beside the approval of the cash-flow balance sheets, the Act does not contain any stipulations regarding the way the balance of the funds in the current year is to be settled. The deficit of the **Labour Market Fund** is charged against the remainder of the surplus proceeds achieved in previous years. We drew attention to the fact that, also taking into account the deficit appearing in the budget of the fund for the year 2002, the time is nearing when the remainder is fully utilised; steps should, therefore, be taken to ensure the liquidity necessary for continued operation.

The balance sheet of the budget report does not contain the debts (which, according to the information from APEH, come to a total of HUF 11.4 billion), although the accounting principle of authenticity would also require the inclusion of the stock of debts in the balance sheet. This is connected to the fact APEH informs the Fund only about the income statements and the payments made, but does not inform it about the money due (or the overpayments).

In 2001 the annual expenditures of the Labour Market Fund exceeded the appropriations approved by the budget act. The utilisation of the surplus receipts originating basically as a result of the higher than planned outgoing wages was decided upon by the competent Minister and the managing board of the Labour Market Fund on their own authority.

Based on the parliamentary act on promoting employment and on extending provisions to the unemployed, the Government is to issue employment policy guidelines annually. For the year 2001 no such guidelines were prepared. In the mid-term, the National Employment Plan of Action elaborated in the year 2000 in the framework of preparations to acceding to the EU set forth, as strategic objectives the broadening of employment, the reversing of the tendency to inactivity, the changing of the character of unemployment, the supporting of the efforts to increase the adaptability of the employed and the competitiveness of the companies, and the moderation of labour market inequalities. Making the objectives concrete each year would equally serve a better perspicuity of the labour market and the process of budgeting.

¹³ See points 2 and 3 of the Appendix.

The size of the financial assets accumulated by **Central Nuclear Monetary Fund** in the course of four years (the total of the annual positive balances) is nearly HUF 27 billion, which is kept in a segregated form on the unified treasury account. Although the amount of accumulation still grows each year, the rate of growth is slackening. Principally, its reason lies in the fact that for the years 2001 and 2002 the central budget did not provide subsidies to maintain the valorisation of the Fund.

1.3.3. Social security funds

The deficit of the of the social security funds in 2001 increased nearly threefold (reaching HUF 28.8 billion), which exceeded the budget estimates. The reason for this was that the position of the Health Insurance Fund (H. Fund) was continually deteriorating. The financial position of the H. Fund showed unfavourable changes in 2001 too, typically because of the unfounded budgeting of the revenue and expenditure estimates¹⁴.

In the planning of the budgetary allocations for 2003, the factors of uncertainty were strengthened by the fact that in the planning period, shortened in the year of the general elections, certain macro-economic parameters serving as blanket conditions for planning, such as the gross amount of earnings, which plays a decisive role in the realistic planning of the appropriations of the funds, and the rate of growth in the gross and net average earnings, were not determined concretely and in a unified way for the different funds¹⁵ for 2003 and the following years.

Among the financial provisions provided by the **Health Insurance Fund**, the expenditure amounts on account of disability pension, sickness benefit, maternity allowance and confinement benefit were over-fulfilled by the end of 2001. The provisions in kind extended by the Fund, the closed appropriations of therapeutic and preventive provisions, although the rules for utilisation were observed, were also over-fulfilled. Experimenting with the model of controlled healthcare provision for the sick, to which the National Health Insurance Fund and the Ministry of Health pin high hopes, has been going on for three years. Based on the experience acquired so far, no decision has been made, however, on the extension of this system, which would have to be set as an objective at least in the context of the conceptual questions related to the transformation of the healthcare system.

For years, the greatest worry has been connected to the untenable closed appropriation of the medicine fund. No steps have,

¹⁴ See point 2 of the Appendix

¹⁵ See point 3 of the Appendix.

however, been made to lower the expenditures, or the measures of this nature have not been implemented. Monthly financing was ensured by steady central interventions. The appropriation of social security subsidies to medicine expenditures, which we qualified to be low even in the process of planning, was fully used up by November 2001. The development of the critical situation could have been avoided if the subsidy appropriation had been modified in time. Within the expenditures for medicines the amount spent on medicines falling under the scope of special allocations has been increasing continually.

In the case of the **Pension Insurance Fund** (P. Fund) it was possible to maintain financial equilibrium and, what is more, its balance of cash-flow showed a positive balance at the end of 2001. The surplus amounting to nearly HUF 1.5 billion was due to budgetary over-financing. Although the financial position of the Fund did not change substantively by the end of the year, the daily liquidity position showed a rather varied picture; with the exception of three banking days, it was necessary to acquire credits from the unified treasury account on each day of the year.

Coverage for the increased expenses of the P. Fund was basically ensured by surplus proceeds. The increase of the proceeds was mostly due to the increase in the pension insurance contributions paid by the employers as a result of the higher than planned rate and amount of the outgoing wages. From the central budget a smaller than planned amount of financial transfers were made.

Due to the higher than planned increases in the macro-economic parameters (consumer price index and net earnings), the amounts of pension increased at an average annual rate of 15.9 per cent. The implementation of pension increases complied with the relevant government regulations.

The operational expenses of the National Pension Insurance Directorate-General were realised almost at the level of the appropriation. Nevertheless, due to a shift among the development objectives taking place in the course of the year, the original appropriations were amended on a number of occasions. The regroupings were implemented in a regular way; however, as far as their preparation and justification were concerned, primarily in connection with the tasks of special significance, a number of objections were raised. In the utilisation of development-related financial resources, our compliance tests performed in the fields of information technology developments and real estate investments, both having a decisive order of magnitude, closed with unfavourable experiences. From the point of view of the sector as a whole, the implemented developments were of such a nature that, in our view, a comprehensive review of the situation is pressing, and the necessary measures should be taken.

We considered that the preparation of the real estate investment in Fiume road and the investments in the related tasks were by-and-large haphazard and ill-considered both in their concepts and details. Changes in the conditions setting the basis for the planning programme under way raises additional costs. The financial planning of the investment was also inadequate. The investment decision and the starting of the public procurement procedure were not preceded by a detailed task survey and a definition of costs. The integrated financial system of SAP, the basic objective of which is to eliminate multiple data entry and to ensure the up-to-date character and transparency of management, is not fully operational even today and carries a number of elements of incertitude. Most of the problems were due to the lack of the developers' budgetary knowledge, the unprepared nature of the project and the business management orientation of the SAP system.

The system of notifying the insured, by way of information, about their personal pension insurance data for the year preceding the current one, in view of the extremely low level of the real utilisation of these notifications and also in view of their costs, needs to be revised and modified.

In accordance with the legal provisions, the reports of the social security funds were authenticated by an auditor. The report of the P. Fund on its operational budget, due to an irregularly accounted and used income item, received a qualified audit opinion.

In respect of the social security funds the basic problem continues to exist. No movement has been made in the right direction as far as the financial position of the entirety of the sub-system was concerned, and the reformation and renewal of the full system of social security has not taken place.

1.3.4. The sub-system of local governments

The proportion of the expenditures of the local governments and their institutions within public finance (reaching some 24 percent in 2001) was similar to that in previous years. Within the share of local governments, the majority of funds (75 percent) were used to discharge welfare functions, in which category the expenses on education and social services were decisive. The tasks transferred to the local governments increased mostly in these fields.

The expenses of the local government sub-system of public finance (covering 3 177 local governments, some 1 250 local minority councils and 13 462 different institutions) exceeded those of the previous year by 14 percent, while its revenues grew by 16 percent.

The decade-long decrease of the proportion of budgetary subsidies and contributions transferred to the local governments by

the central budget, measured against the total expenses of the central budget, stopped in 2001. Despite this, the joint proportion of the normative state contributions, the amounts of other resources ceded by the central budget and the financial resources taken over from other sub-systems of public finance represented the same proportion (55 per cent) of the revenues in the current year as in the year preceding it.

The fact that a sufficient level of financial resources is not connected to independence and the wide range of tasks and authorities of the local governments of settlements continues to raise concerns.

The local governments continued to counterbalance the financial requirements of the growing number of tasks by raising the level of local taxes and by increasing the income from accumulation and capital returns. Therefore, and in order to obtain the resources that could be applied to various developments, they had to increase their own revenues. To possess an appropriate level of own resources is also a precondition for winning various tenders, called for both domestically and internationally. The increasing importance of the own resources originating from current receipts, accumulation and capital revenues is demonstrated by the fact that their proportion was twice as much among the revenues in 2001 than in 1991; it reached the level of 40 per cent. In addition to the resources from own receipts, the dynamics of the receipts from local taxes is also noteworthy. While in 2000 there were 207 local governments that did make the most of the possibility of assessing local taxes, in 2001 that number was reduced to only 127. Regional inequalities continue to be significant; all in all, the villages (85 percent of the local governments) share only 12 percent of the local tax receipts, although 36 percent of the population live in such settlements.

According to the experience of comprehensive audits¹⁶, the fact that the budgets of the local governments were laid on better foundations can be considered as signs of improvement in the field of economic management. Nevertheless, the contents and structure of the budget decrees continue to be at variance with the legal requirements. 25 per cent of the audited local governments did not have economic programmes. Nearly 25 per cent of the offices performing the management tasks of the local government did not have organisational and operational manuals or rules of procedure, while 75 percent of them did not have appropriate accounting policies. The regulation of the co-operation between the local minority self-governments and the local governments is still incomplete in respect of both the tasks and the fields of authority.

¹⁶ See point 14 of the Appendix.

Only 25 per cent of the audited local governments carried out public procurement processes. In the case of two-thirds of the audited procedures the stipulations of the parliamentary act on public procurement and those of the local regulations were not fully observed. Most often, the rules of decision-making were violated.

As in the previous years, the audited local governments did not survey the obligatory and voluntarily undertaken obligations that they wished to meet in view of their possibilities and the existing demand.

Due to the decrease of resources, primarily the local governments of towns continued, in the field of voluntarily undertaken tasks, to transfer the implementation of regional tasks and institutions to the local governments of counties (mainly the institutions of secondary education). In practical terms, the transfers mean the rolling over of a part of the resource gaps into the budgets of the county local governments. The fact that county local governments fell into resource gaps was in several cases due to taking over of institutions performing regional duties. (The possibility of task-transfers made possible by the Law on local governments was resorted to in the case of 16 per cent of the audited local governments of towns.) All this demonstrates that the financing of the effective fulfilment of regional tasks continues to be inadequate.

On the other hand, the fact that the quantity of the demand for provisions decreased and that, due to the influence of economic pressures, the local governments of some counties and towns with expanded institutional networks reviewed the structure and the organisational framework of task fulfilment can be considered a favourable development. To ensure a more efficient operation of institutions and to maintain the level of task fulfilment they have tightened the structure of institutions and introduced a local, treasury-type management. Several local governments introduced reductions in their staffing levels and reduced the dimensions of voluntarily undertaken obligations. However, in the case of some local governments the implementation of the measures lacked a well-founded analysis of the situation.

Since 1997 the amount of central subsidies to the district notary offices, in existence since 1990, to stimulate **joint task-fulfilment** and the improvement of efficiency has steadily increased: in 2001 it exceeded the amount of HUF 2.9 billion. Despite all this, nearly one-third of the local governments in villages with less than 1000 residents still operate outside the umbrella of the district notary offices. In the course of 2001, the settlements on average had 2 to 3 local governments. The legal concept of the district notary offices continues to be ambiguous, and the system of professional requirements, which would ensure that only the district notary offices that

comply with the legal requirements should be able to receive subsidies, have not been elaborated.

Although the regulation of resources continues to stimulate the joint task-fulfilment of local governments, the associative form, due to a lack of the necessary readiness to cooperate, is still not typical. Apart from the district notary offices, the influence of the law on associations stimulating joint task-fulfilment is not satisfactory; the number of associations between the towns and the villages in their catchment area is low in performing institutional tasks requiring considerable financial resources.

As in the previous year, about half of the local governments **operated** under stable, and the other half under worsening financial conditions. According to the audits, one-third of the local governments continued to have insufficient resources. The local governments solved their liquidity problems arising in the course of the year by rescheduling their tasks and by resorting to short-term operational credits and supplementary central subsidies. In cases they took severe economic steps or sold some of their properties. Sometimes, to obtain the necessary extra resources for solving operational tasks, they irregularly used the financial resources for renewing and increasing the housing stock.

The traditional organisational form continued to dominate in the field of discharging public duties, but instances for the initiation of the participation of organisational forms operating outside the scope of public finance could also be seen, depending upon the property and financial situation or other possibilities of the local governments. Mostly due to the complexity of the demand for public services and to a more considerable concentration of assets, the conditions for service provision in a company form continued to be more favourable in towns than in villages.

In 2001 **the assets of the local governments** exceeded those in the previous year by 13 per cent; by the end of the year their value reached HUF 3,505 billion. The increase is still only partially attributable to the result of economic management by the local governments; the evaluation of the real estates taken over free of charge and earlier kept on record without value indications, the 'revaluation', played a more important part there, and one cannot overlook the sale of the privatised assets of the gas public utility either. The increase of obligations by 34 per cent significantly exceeded the increase in the value of assets, as one-third of the local governments could finance their operational and development tasks only by resorting to external resources. In the case of 12 per cent of the audited local governments, the undertaken obligations resulting in debts exceeded the level specified in the Act on local governments. In the development of such a situation, the

shortcoming of the legal regulation related to computing the liquidity credits also play a part.

In the case of half of the audited local governments, the accounting balance sheets do not give authentic information on the assets of the local governments, because the valuation of the landed property kept on record without value indications has not been fully performed, and the depreciation of the immaterial goods and material assets was not accounted correctly. The year-end valuation of the securities embodying the shares in the assets of economic companies and the credit relations was not done; consequently, the losses of value were not accounted either.

Neither was an expedient, co-ordinated recording system-based management practice developed in the fields of recording and utilizing the assets in the period under review. The records on the property status continued to lack compliance with the requirements of authenticity and lucidity, there was a succession of differences between the cadastre of assets, and the data kept on record in the assets and liabilities statement and reality. Less than half of the audited local governments supported their assets and liabilities statements with documented inventories. One-third of the local governments attached to their annual financial statements inventories of their property or statements of sources and applications giving only partial information on their assets position, typically covering their real estate property only.

As in previous years, the experience was unfavourable with the offices and institutions carrying out the economic management tasks of local governments in regard to the development and operation of the **supervisory and internal control mechanisms**. The legal regulation that would provide detailed rules for the audit activities of the local governments has still not been enacted. The development of the audit system within the local governments, the established form of control mechanisms is incomplete both at the supervisory and internal levels in the fields of process-level and management audits alike. In the case of nearly two-thirds of the local governments, the system of internal audits is not operational. The job descriptions do not contain the obligation to audit the outcome of the preventive and related part-processes, or the method of discharging the necessary co-ordination obligation. The villages did not take the opportunity to make audits in the framework of agency relations or in associative forms.

We audited the application for, and the accounting of, **normative state subsidies** with an allocation of HUF 479.2 million¹⁷ in 79 local governments (and in the 227 institutions belonging to them), which was less than in the previous year. This was

¹⁷ See point 1 of the Appendix

partly due to the fact that governmental control activity carried out through the Regional Public Finance Offices had been broadened in this field, and partly to the fact that the comprehensive audit of the economic management of local governments committed an increasing portion of our capacities. On the substantive side, the reduction is supported by the fact that in the field of the audited local government reports, the difference discovered during the audits of the State Audit Office made earlier was below 1 per cent in each year; consequently, this did not mean a serious risk factor in relation to the central budget.

In the audited year, the local governments applied for normative state subsidies under 76 process code numbers, indicating a significant reduction in comparison with the previous year (in the year 2000, this number was 103). Despite the simplifications introduced in the complexity of the application and accounting systems, in the course of 2001 the proportion of the differences detected during the audits increased. The greatest differences were shown, to the benefit of the central budget, in the fields of the institutional daily social provisions, provisions provided in the framework of special care and in the field of the supplementary subsidies to public education. Typically, the differences were attributable to the shortcomings in the management discipline of the local governments, and to that of supervision and internal audit. In most cases, the illegal utilisation of subsidies was discovered in relation to the shortcomings (to the ambiguities) of the regulation regarding the calculation of task indicators and to licensing of activity.

In 2002 we accorded special attention to auditing the field of **tied normative subsidies**¹⁸ (their allocation amounted to HUF 100 billion in 2001). Their amount increased by nearly 60 per cent at the expense of the number and amount of centralised appropriations. Based partly on our proposals, these last mentioned appropriations assist, mostly through tenders and applications, the solution of different single problems in relation to a smaller number of local governments.

Within the system of subsidies, the proportion of assistance with a social character is continually growing, which is connected primarily to the changes in the legal conditions for regular social benefits. The monitoring of these changes raises difficulties in correctly fixing and paying the provisions, in the application for such provisions in compliance with the regulation and their utilisation in a form supported by vouchers.

As in the previous year, in relation to the subsidies related to public education and public benefit employment we again un

¹⁸ See point 18 of the Appendix.

derlined that sometimes the restrictions of the legal regulations themselves cause obstacles to their expedient and effective utilisation.

Again in 2001, the **targeted and labelled subsidies**¹⁹ were the decisive resources for the development activities of local governments; the targeted resources financed about 50 to 80 per cent of the investments. Connected to the implementation of 152 investment projects, we audited the utilisation of 32 per cent of the total amount of labelled and targeted resources available to the local governments (which, taking also into account the remainder from previous years, amounted to HUF 103 billion); this proportion was about the same as in the previous year.

It was typical of every audited investment project in the field of water management, health care, education and waste management that the multi-channel system of subsidies was confused and did not ensure equal opportunities to the local governments. The decision on labelled and targeted subsidies differed both in the timing and the system applied to other state subsidies available to developments through application. This lack of co-ordination resulted in the possibility that in the case of successful application for other public moneys, all the 100 per cent of the total investment estimate could be obtained, which was in violation of the principle that the local government should contribute to the implementation of the development projects financed from labelled and targeted subsidies with their own resources too.

The negative side of the regulation, according to which investments could be made at places where the local revenue possibilities or interest assertion capabilities were better, continued to exist. The differences in the field of infrastructure among the various settlements of the country was not reduced. In the past decade it has been a peculiar contradiction of the system that while the demand for investment resources has always exceeded the available financial resources, the non-utilised remainder of the money has steadily been high.

As in previous years, the remainders were caused by unjustified appropriation commitments. In addition, the time consumption of the public procurement procedure with pre-qualification also played a part in the formation of remainders, due to which several investment projects could not even start in the year under review. At the same time, the increase in the proportion of subsidies had a favourable effect on the completion of capital-intensive investments started in previous years and, in parallel, on the reduction of remainders too.

¹⁹ See point 20 of the Appendix.

For several years we have remarked that in the interest of producing their own resources, the local governments in many cases became financially dependent on the contractors (they entered into contracts with them on the use of public areas, the renting of premises and the use of equipment, the extra expenses of which were set off by the contractors against the entrepreneurial fee). Based on the new regulations of 2001, this opportunity ceased to exist.

Although the regulation on the system of conditions for **supplementary subsidy to local governments becoming in-operational**²⁰ was amended on a number of points, it did not change in substance.

According to the data of the annual financial statements for 2001, due to the insufficiency of local resources HUF 1.2 billion more was used than in the previous year to support the local governments that were unable to operate; a total amount of HUF 13.6 billion was distributed between 1,305 local governments. The amount used for temporarily supporting the 6 permanently insolvent local governments was HUF 59 million. In the course of the year, the number of local governments with insufficient resources or those permanently insolvent increased by 96. The subsidy of HUF 900 million included in the budget of 1993, which regulated the conditions for utilisation for the first time, increasing by fifteen times 2002, and the number of supported local governments by eight times. Characteristically, the deficiency of operational resources in the case of local governments with small budgets was caused by the inappropriate use of the institutional capacities, as well as by the increased amortisation costs and interest charges they were to pay after the stock of their credits.

As of the year 2000, new forms also exist for helping the local governments that fell into a disadvantageous position through no fault of their own (ÖNHIKI) struggling with insufficient resources or with permanent insolvency. The Minister of Interior may tie the reimbursable and sometimes the non-reimbursable subsidies to different targets or tasks. Already in 2001, 458 local governments applied for such subsidies and, out of them, 369 municipalities received assistance in the form of HUF 1.5 billion. This subsidy being far from negligible in size, which is based on individual decisions, does not fit in the concept of normative financing. Its existence demonstrates the inability of ÖNHIKI to handle the totality of the financing problems of the local governments which run into trouble.

Based on our audits, **it can be stated in summary** that in the system of regulations related to the resources of the local governments, the details laying down the rules for actual cal

²⁰ See point 18 of the Appendix.

culations, as well as the rules related to the subsidy titles and the division of ceded revenues changed continually in the course of the past years, partly as a response to our recommendations, while the implementation of the basic principles continued to be implemented. All in all, the amendments were positive in their effects; they aimed to ensure the division of resources in a way that was better adapted to the tasks, to the strengthening of the principle of normative financing, to the cause of preventing unjustified utilisation and to the implementation of the priorities laid down in the government programme. **Despite this, the budget for 2002 could not eliminate the tensions that had existed for years between the tasks of the local governments, and the resources available to them.**

The revision of the tasks and powers of the local governments, stipulated in different government decisions, was not implemented; no substantive progress could be seen in the preparation of the reform related to the financing system, which was provided for by the government programme and also urged on by the SAO for a number of years. The government resolution setting forth the duties connected to the development of the financial system of public finance specified, as tasks of the Ministers concerned, the review of the system of compulsory local government obligations, in line with the preparation of the annual budget bills, as well as the development of the regulation on local government resources in co-ordination with a rational assignment of duties and authorities, which, however, were not met.

According to our audits, **the practice of not ensuring the financial budgetary coverage necessary to discharge the newly assigned local government tasks, in contradiction with the stipulations of the Act on local governments, continues to be typical, and there is no substantive progress in ensuring the financial resources in proportion to the tasks and expenses, which is amply demonstrated by the steadily high number of local governments with a steadily disadvantageous position due to no fault of their own.** Financial management continues to depend on the central provision of money, but the system of distributing the subsidies is not yet efficient enough. The utilisation of resources is sometimes made difficult by the limitations of law and sometimes by the delays in regulation.

1.3.5. State assets

The activity of the **State Privatisation and Holding Company**²¹ (ÁPV Rt.) showed a further weakening of privatisation and asset management. However, contrary to an earlier decision, the transformation or the dissolution of the organisation was removed from the agenda. What is more, the Company, in possession of the budgetary subsidy provided to it, became an execu

²¹ See point 24 of the Appendix.

tive organ of economic policy measures. Disregarding the changes in the legal background and in the legal provisions, the value of the assets assigned to the APV Rt. (HUF 111 billion) was reduced (by almost HUF 23 billion) by virtue of a government resolution and through the transfer of assets free of any charge to an organisation operating outside the competence of public finance. **This last mentioned step strengthened further the non-transparency of the management of public property, and placed obstacles to the performance of audits.**

In respect of the audited year of 2001, which was financially closed, no harmony existed between the business plan of the ÁPV Rt. and the appropriations of the budget act. During the year, the differences among data of the budget act, the business plan and the actual expenditures were so large that the management by the ÁPV Rt. of the assigned assets could not be considered as a planned one, and this had an adverse influence on the budget position. The proceeds from privatisation (HUF 29 billion) did not reach even the half of the planned amount. The ÁPV Rt. subsequently received relief from its obligations to make payments to the budget, in the framework of the budget act amended by the act on the annual financial statements for 2000. In 2001, the expenditures set forth in the budget act were not implemented fully in respect of any items. However, the dispersion between 0 and 87 percent is not only due to the insufficiency of resources due to a lack of proceeds; it also arose from the fact that the final accounts of the implemented expenditures were not recorded in compliance with the titles contained in the budget act, but rather to the debit of the privatisation reserve account.

The operation of the audited **companies performing public service duties** was characterised by a steady lack of financial equilibrium and an increasing demand for state financing. The reasons for this too can be traced back to external and internal factors, which could not be separated from the characteristic features and special qualities of the tasks. Of such experiences we wish to make special mention of those that were gained as a result of auditing the **Hungarian Railways (MÁV)**²². Following the transformation of the MÁV into a joint stock company, the governments in office dealt with the management problems of the railway company performing public services in the field of uneconomical passenger transport and with the undertaking of roles by the state on a number of occasions, but substantive changes did not take place. The aim of the comprehensive reform of the MÁV Rt. adopted in 2000 was to establish a large modern company which would flexibly to the market conditions and provide good quality services. However, the undertaking of state responsibilities necessary to meet this aim was not achieved in the course of budgeting for 2001 and 2002. Due to the amendments made to the act on railways, the changes

²² See point 21 of the Appendix.

in conception in the ministry carrying out supervision, the fact that the demand for resources could not be realised in the budget, the lack of measures related to improving the efficiency of the financial management of the company and due to the modification of the stipulations of the European Union in respect of the railways at the time of preparing for accession, the railway reform was not implemented. The proposals made by MÁV in 2000 to simplify and modernise the tariff policy and fare reduction in passenger transport were not adopted. The resolutions elaborated earlier in the context of the railway reform were withdrawn in 2001, and new objectives were formulated for meeting the obligations related to acceding to the EU and for increasing the competitiveness of MÁV Rt.

The economic management of the MÁV Rt. between 1995 and 2000, despite its budgetary financing and rehabilitation, produced losses. The budgetary subsidy (retail price supplement and production support) provided to the basic services did not ensure a zero-balance financing of passenger transport. The company did not exceed the planned deficits in any year. However, no comprehensive screenings exploring reserves were held in the company in the field of cost management. The considerable increase in the general expenses for the year 2000, which could not be charged directly against the product or accounted by transfer, was related to the reform process. A new central organisation was established, the co-ordinating role of track railways was strengthened and the amount spent on expert investigations related to the reform increased. The costs grew as a result of the increase in the costs of information technology services provided in the context of updating the information technology system. The cumulative postponement of track railway developments and the insufficient maintenance work needed to maintain quality levels led to a gradual wearing of the railway tracks. As a result, and for reasons of traffic safety, speed limits were gradually tightened. As a consequence of investments not being made, the good running order of the vehicles deteriorated and the expenses spent on maintenance work increased. **The recent serious traffic and service provision disorder touching upon the running order of motor trains was inevitable.**

Public service television and radio broadcasting represent a special group of public services. The regulatory background of this group does not provide any guidance as to the system of professional requirements for ensuring the 'public service character', or the system of criteria determining the size of the necessary state subsidy. The lack of this, amplified by the weaknesses appearing in the exercise of proprietary rights, makes it difficult²³ to justify the awarding of subsi

²³ See point 31 of the Appendix.

dies and to perform the audit on the expedient and effective utilisation of these subsidies.

In the case of the companies established with low capital supply (Duna Television) or with inherited debenture stock (Magyar Televízió [Hungarian Television]), the financial management building on the programme policy objectives of the media act, a kind management which was ill-founded financially, which was based on a business plan showing a deficit from the very beginning and which was drawn up without the possible and necessary norms, which proceeded from the costs and lost sight of the limits of resources, led to the accumulation of debts, the obsolescence of the stock of equipment and to a loss of property. In the field of strategic and operative operation and management, the process of a more efficient proprietary management, control and operation would require a comprehensive proprietary revision and co-ordinated control in the case of the Hungarian News Agency (MTI Rt.) too, which left behind a financial year of positive results and operated on the basis of otherwise improving financial indicators.

The making of strategic decisions and their actual implementation are made difficult by the contradiction existing between a defined task fulfilment obligation and the way public service television broadcasting is financed. A subsidy system assigned to the fulfilment of tasks on a normative basis and stipulated in the media act, supplemented by targeted subsidies as necessary, could facilitate long-term and well-founded decision-making and thus the implementation of the decisions.

1.3.6. The financial management of political parties

Although in 2002 the SAO did not publish reports on the audit of political parties (the publication of these reports rolled over to 2003) it nevertheless fulfilled its obligations in this field, so it is possible to give a summary of the experiences²⁴. The audits made in the field of the financial management of political parties continued to reaffirm the validity of the SAO recommendations that have been made continually since 1995, according to which there was a need to amending the party act.

Since the entry into force of the act on accounting in 1992, the fact that, at the time of defining the contents of the annual party reports, the basic requirements of the accounting act were not taken into account has been a continual problem.

²⁴ See the Report on the audit of the legality of the financial management of the Christian Democratic People's Party in 2000 and 2001' and the Report on the audit of the legality of the financial management of the Workers' Party in 2000 and 2001.

The audit performed on the Christian Democratic People's Party discovered a further contradiction in the regulations of the party act. The Party, in the framework of its financial management, received an illegal income, as a guarantee of which, in accordance with the regulations of the party act, the budgetary subsidy of the Party should be reduced. However, based on its results in the general elections of 2002, the Party did not continue to receive budgetary subsidies; this sanction could not, therefore, be applied. In view of this, the SAO signalled the actual situation to the Ministry of Finance and requested it to study the possibility of applying this sanction. At the same time it proposed that the Government, in order to prevent the occurrence of similar situations, should take steps to amend the party act in such a way that a clear-cut regulation is provided for similar situations and that it should put an end to the sanctioning differences existing at present between those parties that receive budgetary subsidies and those that do not.

1.3.7. Audit experience related to certain special fields

The strategy of the SAO, renewed in 2002, conceived as a new element in the activity of the institution, the idea according to which, the SAO should, in view of its possibilities, select audit topics where, relying on the audit reports prepared in the past few years regarding various fields of the national economy, it could provide comprehensive information in the form of independent analyses about the processes going on in the selected fields and about the reasons for them. The nature of this objective means that it can be implemented in 3-4 years.

While the process of strategic implementation of this task 'goes round', the SAO, based on its audits performed in previous years and in the course of 2002, is able to prepare, in addition to the annual comprehensive reviews related to the various sub-systems of public finance, a more comprehensive appraisal than before of the situation of some important, special fields.

1.3.7.1. Preparations to accession to the European Union, the utilisation of international assistance²⁵

We paid special attention to auditing the tasks related to Hungary's accession to the European Union and the implementation of these tasks, as well as to auditing the extent to which the drawing on, and utilisation of, the financial resources provided from Union sources (PHARE, ISPA) was in accordance with regulations. According to our findings, adaptation to the requirements of the Union in the fields of legal harmonisation and the establishment of the institutional back

²⁵ See points 23, 25 and 34 of the Appendix.

ground took place at a slower speed than justified, which affected the judgement of Hungary adversely and delayed the opportunity to draw on the possible resources. On the other hand, the fact that the catching-up process became more vigorous and more effective in the recent period is a positive development.

From the year of 2000 up to 2006 (or up to the year of accession) Hungary, in the framework of the pre-accession programme of SAPARD, has or will have received an annual assistance amounting to 38 million euros. Based on a request by the Government, the **pre-accreditation screening** of the organisation and procedures of the institutional system participating in the implementation of the SAPARD Programme, which forms the basis for the national decision on accreditation, was carried out by the SAO in the framework of an agreement concluded by the responsible senior officers appointed by the National Programme Authorising Officer and the President of the SAO.

Our audits performed with the SAPARD Office and the National Fund in respect of the measures entitled 'Subsidies to the investments of agricultural enterprises', 'Development of the processing and marketing of agricultural and fishery products', 'Development of rural infrastructure' and 'Technical assistance' found that the preparation of both of these institutions meet the provisions of the Multi-Annual Financing Agreement (MAFA), and that they are suitable for national accreditation. We have performed our audits by employing a method in compliance with the requirements of the European Union. It was on the basis of our reports and our audit opinion that the National Program Authorising Officer made his decision on the accreditation and simultaneously submitted the relevant documents to the European Commission. The European Commission made its decision on the accreditation of the Hungarian institutional system on 26 November 2002.

The **institutional monitoring system** set up in view of the nearing date of accession to the European Union was characterised by duality: on the one hand, through the operation of the Joint Monitoring Committee, it complied with the stipulations of the European Union, while, on the other hand, the monitoring committees set up in accordance with the domestic regulations for the PHARE, ISPA and SAPARD programmes, and built out at the national, chapter and partly regional levels also operated. The organisational and operational rules of the system of monitoring and evaluating the utilisation of the assistance and carrying out signalling activity in that field, the task of which is to monitor the process of utilisation on a continuing basis and to promote the attainment of the objectives, are not in line with the international agreements, which led to the merely formal (or nominal) operation of the domestic monitoring committees. The development of the system of information technology for data collection, as well the data content of that system complied with the monitoring regulations

of both the European Union and Hungary; the issues of collecting and analysing the financial data have been dealt with, but instances of overlapping could be found among the various systems and no data exchange was taking place among the systems either by using data media or through the network.

The EU resources were in line with the monitoring tasks set out for Hungary; however, the resources necessary for performing the tasks specified in the domestic regulation were only partially available. The direct result of the monitoring measures taken was that the unutilised financial resources of the National Programme in 1999 showed a reduction in comparison to the previous years. In respect of performance assessments, the acquisition of the methodology used by the European Union, where the objectives, the achievements and the effects can be assessed by using different EU index numbers, is a new requirement, which means an additional task to be fulfilled. Following the audited period, in April 2002, the international agreements related to discharging the monitoring duties for PHARE and ISPA were built into the Hungarian legal system; the Hungarian regulations regarding the assistance provided by the European Union, which also touch upon the field of monitoring were amended and, furthermore, the elaboration of a detailed substantive, organisational, personal and financial programme of work was stipulated for the period extending up to the date of accession.

In the field of preparing for accession to the European Union started in respect of guarding and defending the state borders and the discharging of **border police duties**, the implementation of the basic principles set out in the Schengen Agreement appeared in the most palpable way in the demand to amend the tasks and organisations of the border guards, which equally affected the staff (a marked reduction in forces, the replacement of enlisted forces by professional ones) and the composition of the technical means. In our view, the resource needs of the integration requirements, taking into account the experienced dragging of developments, demanded the rationalisation of the development concepts and, based on that, the definition of tasks that could be implemented and financed by the deadlines.

The **investment of Mária Valéria bridge**, rebuilt in the framework of Slovakian-Hungarian co-operation and by taking advantage of the PHARE assistance provided to both parties in addition to the national resources, was reviewed jointly with the Slovakian Audit Office, in the framework of audits performed in parallel with each other. All in all, our experiences were favourable; we recorded the finding that the stipulations of PHARE and the conditions set by FIDIC (International Federation of Consulting Engineers) were strictly observed in the implementation process of the project. The work was done in accordance with approved documentation and met the required typical technical and economic indicators. The investment,

which satisfied requirements arising from the principles of environmental protection and the maintainable development of the surrounding regions, was completed in time, its transference took place before the set deadline.

The ministries awarded the amounts of assistance in accordance with the PHARE rules of procedure; however, in the case of some pieces of procured equipment an activation procedure, which was at variance with the national accounting rules, was discovered, and in some cases incorrect practices were followed in the field of supplementing or amending contracts. To prevent the occurrence of such practices, we called the attention of the persons concerned to the importance of regulating in sufficient detail the range of tasks and the spheres of authority and authorisation related to project implementation, to that of co-ordinating the fields of monitoring, as well as external and internal auditing. The invoicing irregularities discovered with different investments implemented from Hungarian resources in connection with the projects were signalled to the tax authorities. It happened that, due to the insufficient preparation of certain PHARE programmes, the undertaken obligations were performed directly before the expiry of the deadlines. We did not discover financial irregularities in connection with them, nevertheless, we considered it necessary that, in order to monitor the projects and ensure their time-proportionate implementation, steps be taken in the field of the record system related to international assistance.

In the field of **implementing ISPA programmes** only the preparations have taken place: the institutional background has been developed, but its operation has not been regulated. Despite the annual commitments of appropriations, no payments have been made, since the implementation of programmes could not be started before the conditions set forth in the financing agreement has been met.

1.3.7.2. Health care²⁶

The public duties related to health care are contained in the act on health care. At the time of its enactment, according to the justification of the act, the objective was to ensure that a consistent, consensus-oriented and transparent decision-making system was developed in respect of the decisive and comprehensive questions of health care policy. The act provided for the elaboration of a National Health Enhancement Programme, which was to be approved by the National Assembly and reviewed once every four years. In accordance with the act, the National Health Enhancement Programme should contain, on the one hand, the long-term objectives and tasks related to public health and, on the other hand, the principal directions and tasks of the health-related provisions and the providing

²⁶ See point 6 of the Appendix.

system, those of the health insurance system, and the provision of medicines and pieces of therapeutic equipment. A National Health Enhancement Programme with this content has not hitherto been elaborated.

In 2001, the Government adopted the Public Health Programme for a Healthy Nation extending to the period between 2001 and 2010, which covers a part of the substantive requirements included in the Health Enhancement Programme, but does not contain either the conception related to health care provisions financed from public resources (including the provision of medicines and the supply of therapeutic equipment) or the conception related to the providing system and the method of social security financing. The elaboration of these topics as constituent parts of the health care section of the National Development Plan is now in progress. The Public Health Programme for a Healthy Nation has not been submitted to the National Assembly and no extra resources were allocated to it in the budget for the years 2001 and 2002.

Evaluating managerial activity in the health sector, one can state that, in relation to exercising control over the professional fields and to preparing legal regulations, the Ministry in general met its duties stipulated in the act on health care and in the government decree on the scope of duties and powers of the Minister of Health. **The system of professional requirements for health care services, the system and requirements of health care education and professional training, as well as the management of research activity and the legality supervision of the professional chambers have been regulated. With a few exceptions, the regulation tasks stipulated in government resolutions regarding different questions of health care services have been met.**

Backlogs exist primarily in the implementation of tasks related to health care policy. The conception of a health care providing system operating in line with needs and in a way that can be financed, and the conception on the development of the institutional structure were not submitted to the Government, and the settling of the questions of amortisation, and the modernisation of the financing of health care also failed to come about. In order to regulate the capacity of the health care providing system the act on the obligation to provide health care services and on the norms of regional financing was enacted, but the 'reduction of the number of beds' taking place within the county level bargaining mechanism did not result in the development of a providing system that would be better adapted to needs and in a system that could be financed. The health care reform started in 1991 was fully implemented only in the field of the family doctor services. The effects of the regulation issued in 2001, containing significant changes in respect of transforming the **professional services**, cannot yet be felt.

Taking into account the European norms, the act on health care specified the tasks of the ambulance services, blood supply and public health services within the framework of state responsibility. The re-definition of professional tasks has taken place in all three fields and, simultaneously, structural transformations have also been implemented.

As of 1 July 2000, the transformation of the system and the organisational structure of **blood supply**, together with a full-scale legal regulation, have been implemented. Due to an insufficiency of resources, backlogs exist in the establishment of the information technology system necessary if it is to operate in a uniform manner nationwide.

As of 1 January 1998, the restructuring of the ÁNTSZ [*National Public Health and Medical Officer Service*] has also taken place; its central organ, the Office of the National Medical Officer, has new tasks and powers. The internal regulations of the two organisations are incomplete at present, their completion is now under process. One can object to the fact that in neither case was a preliminary programme of implementation prepared to the process of restructuring.

At present there is no professional conception approved by the supervisory organ for the development of **emergency health care services**, including the ambulance services, although from 1998 to 2001 the task, in line with the requirements of the EU, figured among the priorities of health care policy. In 2001, as part of the restructuring of emergency health care, the National Institute of Casualty and Emergency Health Care was established by merging the earlier National Institute of Traumatology and the Ambulance Hospital. The founding tasks connected to the establishment of the new organisation were not fulfilled by the Ministry in their entirety. It is too early to assess the effects of the measure taken on the level of service provision yet. The objectives set in connection with the National Ambulance services, availability within 15 minutes, were only partially attained.

Health care is one of the most important sectors of the redistribution of state resources, affecting the whole of society. In Hungary, the provision of health services to the population is worse than what could be expected from the situation of the country. Resolution of the tensions related to the sector and the adaptation to the expectations of the EU requires the reform of health care, the main fields of which are the enhancement of health, public health and the restructuring of the providing system. In the restructuring of the field mentioned last emergency health care takes priority.

Although results were achieved in these fields, as it was also verified by the financial audit, **no progress was made in the reform of financing. Among others, the reason for the lack of progress was that this task presupposes and demands the solu**

tion of questions requiring consensus, such as the role of local governments and the fate of assets.

1.3.7.3. Environmental protection²⁷

The management of public administration and the professional supervision of **environmental protection and nature conservation** are the tasks of the Ministry of Environment. In the financing of the expenditures made by this chapter on implementing the tasks of environmental protection, the resources of other chapters (Ministry of Transport and Water Management, Ministry of Agriculture and Regional Development) also made a contribution.

In 2001, as a result of the measures (organisational and legal regulations) taken recently in the field of environmental protection, the European Union rated the progress attained by our country in meeting the criteria of legal harmonisation in relation to the chapter of environmental protection as positive, and temporarily closed the negotiation on the chapter of environmental protection.

In the course of 2002, several State Audit Office audits dealt with environmental protection; according to the SAO report on the audit performed on the operation of the Ministry of Environment chapter, progress had been made in several regulatory questions. In the period under review, the National Assembly adopted the National Programme of Environmental Protection (NKP), which is a system of plans for interventions over a period of 6 years and should result in the resolution of current problems and in the prevention of the development of future problems in the field of environmental protection, and enacted the act on waste management. At the same time, there were backlogs in the governmental and ministerial activity in creating the legal regulations necessary for implementing the parliamentary acts.

Typical of the handling of environmental protection issue by the Government is that this field was not listed among the priorities contained in the planning circular; the most important planning principle was the maintenance of the operational capabilities of the institutions. The allocations for the chapter-managed appropriations and the accumulation appropriations of the institutions were developed on the basis of the 'remainder principle'. The Ministry was able to ensure the financial coverage necessary for continuous operation only by relying on the financial resources of the Central Environmental Protection Fund and the Targeted Appropriation for the Environmental Protection Fund. Although the institutional financing of the tasks of environmental protection and nature conservation is not in contradiction with the basic objectives

²⁷ See points 4, 15 and 26 of the Appendix.

of the Targeted Appropriation for the Environmental Protection Fund, according to our findings it led to parallel, task financing, which was difficult to comprehend.

Faster progress is necessary in the field of **waste management**, not only to gradually improve the state of the environment in Hungary, but also because it is an especially important precondition of accession to the EU. The country report of the EU also raised as a pressing issue the gradual elimination of the shortcomings and problems existing in these activities.

In local governments, in addition to maintaining the operational capabilities, the improvement of communal services provided to the population continued to be an priority task in settlements, as a result of which there was an improvement in the provision of communal services in infrastructure. In view of the need to reduce the lags in environmental protection and to adapt to the requirements of the EU, the system of subsidies stimulates the implementation of investments in the field of the collection, disposal and utilisation of solid and liquid wastes. In settlements, the collection and treatment of waste in accordance with the EU requirements showed only a slow, gradual progress. The quantity of the collected solid wastes increased by 3 to 4 per cent from one year to the next. The proportion of the settlements included in the system of solid waste collection reached 80 per cent, while such services are not provided in 604 settlements, the majority of which have a population of less than 2000 residents. Nearly one half of the landfill capacities established as a result of various investments are owned by the capital.

The discharge of solid waste management duties was made difficult by problems of regulation, financing and attitude alike. The legal regulation of task fulfilment dragged on. The tasks of public sanitation and solid waste management specified in the acts, mostly due to the delays in legislation, have not been integrated in the practice of every local government.

Only some 30 per cent of the audited landfill plants for solid wastes complied with the system of requirements specified in the EU directives on environmental protection. Nearly 90 per cent of the collected solid wastes are disposed of by landfill, 5 to 7 per cent of them are burned and hardly 1 or 2 per cent is recycled. No progress was made in the field of selective waste collection; for the time being it was introduced only by way of an experiment in some settlements. The proportion of the selectively collected solid wastes did not even reach 1 per cent of the total annual quantity of wastes. Due to the lack of financial resources, the local governments did not develop the technological and technical conditions of selective collection.

According to calculations, the establishment of organised collection, the modernisation of waste collection, a speedier in

roduction of selective waste collection, the recycling of waste, the composting of organic waste, the modernisation of the incinerator plant in Budapest, the establishment of regional landfill plants and the remediation of the old landfill plants requires some HUF 140 billion in the period 2001 - 2008.

The **environmental protection investments in Western-Transdanubia** were dealt with in an independent report. As of 1996, the Austrian Government had provided assistance to the towns of Hungary located in the western border area in the elaboration of energy conceptions that could result in a more favourable environmental situation for Austria. Between 1996 and 2000 the programme supported 7 projects in five Hungarian towns (Szombathely, Sopron, Körmend, Mosonmagyaróvár and Csorna) including the project of the FALCO Company in Szombathely. The projects mostly included the tasks of the towns concerned in the field of environmental protection, the optimisation and modernisation of energy use and the feasibility studies of the proposed investments.

Although the local governments were not able to provide the resources necessary for the implementation of the marketing and communication proposals aimed to improve the environment of the given towns, the benefits of the Austrian assistance used for developing the conceptions are indicated by the savings of energy and money achieved by implementing the investments and also by the improvement in the quality of the air.

1.3.7.4. Public education²⁸

In respect of the future of the country, its development and competitiveness, the continuous increase of the level of well-founded and usable knowledge of its citizens is decisive. To meet these requirements, an educational system must keep pace with the development of science and should meet technical and professional challenges. **Basic education and the quality of elementary and primary education, has a special role to play in this.**

Over the past decade the part of the education system in Hungary to be most criticised was the quality of services. However, in order to ensure the fulfilment of the expectations and requirements regarding the quality of education, it is necessary to specify the objectives in a clear-cut way, to define the tasks promoting the implementation of these objectives, as well as to take stock of, and create, the conditions necessary to implement the tasks. The concern for all this appeared in the SAO audits as a special reflection of financial and economic matters.

²⁸ See point 16 of the Appendix.

Public education represents nearly 40 per cent share within the welfare tasks of the local governments. 3 per cent of the amount of HUF 524 billion spent on education in 2001 served, in a targeted manner, the quality of education by making available professional pedagogic services and experts. Although the public education chapter of the government programme of 1998 attached special importance to the improvement of the quality of education, to the development of its quality assurance system, no long-term plan or strategy was prepared that would specify the system of the means of, the risk factors involved in, and the resources needed for, the implementation of this task. With the intention of decreasing the differences in quality among the schools, the amendment to the act on public education provided for a framework curriculum to be introduced between the national base curriculum and the local curricula without assessing the experiences related to these curricula.

The legal amendment stipulating the revision of the educational development programmes of counties was implemented only in a limited way, because the local governments of settlements did not provide the necessary appropriate data. Consequently, the elaborated county development programmes are incomplete and sometimes contradictory; they do not regulate the co-operation of local governments or the system of the flow of information.

Over the past years, the personal conditions of education improved somewhat, although tensions arose in the small settlements. In the audited organisations, the staffing conditions were ensured; in the towns there was a considerable improvement in the staffing of specialised teachers, but some improvements took place in the villages too. The same cannot be stated in the case of small villages with a disadvantageous position, where the joint employment of teachers with other villages or the associations could be instrumental in solving the problems.

The fact that under, and also in addition to, the associations established for discharging maintainer's duties, several co-operative steps were taken to implement small area tasks in the fields of public administration and education alike can be considered as a favourable development.

As in previous years, there was no major improvement in the material conditions of education. Half of the school buildings do not satisfy the stipulations and the supply of teaching materials and equipment falls far short of the requirements. The fact that the system of financial information in itself does not make it possible to take stock in a segregated form of the expenditures used for elementary school education is a source of concern.

The county public foundations operating in the field of public education did not prove to be a duly effective means in the financing of local tasks. On the one hand, they were unable to mobilise resources outside the framework of public finance and, on the other hand, due to the utilisation objectives specified in the budget act, the utilisation of subsidies in accordance with the county development programmes took second place.

The amendment to the act on public education stipulates the development of the local quality assurance system as a compulsory duty for every institution. To promote the achievement of this objective, the public educational quality assurance programme, Comenius 2000, was started. One cannot yet speak about the operation of the system of measuring and assessment, but the development of the programme has already started.

1.3.7.5. Employment²⁹

In the past years, most of the duties regarding public services arose in the field of social provisions. At present, the local governments provide allowances to nearly one million persons among the socially needy. The system of allowances includes the population groups who do not have an earned income, or one due on the basis of insurance, necessary for subsistence, and also children living in disadvantaged families and those who have fallen into a crisis situation. In comparison to previous years, some shifts of emphasis have taken place in the work of the local governments and the range of their duties has broadened in respect of the unemployed.

The local governments have played an important role in influencing the employment situation from the very beginning. On the one hand, based on the provisions of the act on promoting employment and on extending provisions to the unemployed, valid since 1991, they provide labour market services in connection with finding jobs and becoming entrepreneurs and, on the other hand, they take an active part in ensuring employment.

As of May 2000, the assignment of supplementary unemployment income subsidies ceased to exist and the provision of regular social assistance to those leaving the framework of the unemployment allowance became generally applicable to the persons concerned. According to our audit findings, as a result of the changes taking place in the system of unemployment allowance (provided in the framework of extending assistance to the population), the number of those entitled to unemployment allowance reduced in 2001, while, at the same time, the number of those receiving regular social assistance increased. In line with the changes in the regulation, the number of the un

²⁹ See point 13 of the Appendix.

employed within the active age brackets receiving entitlement to regular social assistance in the social providing system increased substantially. As a precondition for providing regular social assistance, the social act compelled the local governments to organise labour opportunities extending to at least 30 working days within the system of public employment (engagement in public benefit or public purpose activities or work done under the public work programme). The experiences gained in connection with the expediency and effectiveness of the operation of the three assistance forms are varied.

Among the forms of employment, the local governments preferred the public benefit employment, primarily because its practice goes back a number of years, and also because of the professional contribution of the labour market organisation, freeing the local government from burden.

The public purpose employment starting in May 2000 broadened the instruments available to the local governments in the handling of local employment problems. Since in the case of this form of assistance the conditions to obtain the budgetary subsidies sufficient to cover the expenses fully were considerably softer and more flexible than those of the public benefit and the public work programmes, it offered the local governments a good opportunity to alleviate the consequences of unemployment. However, its implementation did not fully take place in accordance with the legislative intentions and in line with the most efficient utilisation of the available subsidies. The system of assistance to public purpose activities, coupled with the less than clear formulation of the rules for utilisation, reached its objective only partially, because it operated with considerable differences from region to region and from county to county, and even at the level of local governments within the limits of individual small areas. Neither was it able to produce resounding success in the employment situation or in the improvement of the considerably subtly varied local unemployment circumstances, and it could not offer employment possibilities with the chance of a permanent solution.

Of the three audited employment forms, the public work programmes came the closest to the governmental intentions and the social expectations. This assistance form, operating in the system of tenders and applications, ensured the programme-like planning of the actual value-producing employment, as well as its accountability, rating and testing; through the employment of at least one hundred persons it served well the strengthening of regional and small area organisations.

All in all, the audit experience shows that the system of public employment assistance does not operate appropriately; the expediency and effectiveness of the utilisation of the budgetary resources directed to this field is inadequate. Due to this, a change is justified in the system of employment assis

tance, at present directed through three channels. This would mean the termination of assistance to the public purpose work in its present form; its role played in the field of employment would be taken over by the system of public benefit employment, which was practised within its organisational frameworks, but which required an increase of severity in its operational conditions. In parallel with this, it is expedient, within the framework of public benefit employment, to increase the proportion of value-producing resources, operating in a programme-like manner and with a system of applications, and it is necessary to increase the amount of assistance meant to support the public work programmes.

1.3.7.6. Non-profit organisations³⁰

It is characteristic of the changed social importance and economic weight of the non-profit organisations that the number of operating organisations reaches 50 thousand and the level of their budgetary subsidy has been growing dynamically (in 2001 it was nearly HUF 200 billion). Taking this into account, the SAO audited the utilisation of the non-normative subsidy extended to public foundations, foundations, social organisations and public bodies in the period between 1998 and 2001.

In the past four years, about 1000 to 1600 **public foundations and foundations** received non-normative subsidies from the central budget; the amount of these grew in each year and reached a total of nearly HUF 80 billion, 80 per cent of which was allocated by the National Assembly by indicating the names of the subsidised (public) foundations and, in general, the objectives of the subsidy.

The ministries awarded 16 per cent of their subsidies, which were debited against the allocations of their chapter-managed appropriations, omitting the application process, and, in almost one-fourth of the audited cases, they also provided subsidies to non-public benefit foundations, which was contrary to the stipulations of the annual budget acts. In violation of the provisions of the act on public finance, in 7 cases four ministries provided subsidies to foundations that had public debts with expired due dates of more than 30 days. The ministries, violating the provision of the act on public benefit organisations regarding the obligation to conclude contracts, did not conclude contracts for the utilisation of subsidies provided in the amount of some HUF 13 billion. Less than half of the ministries audited the implementation of the concluded contracts by fieldwork covering hardly 10 per cent of the provided subsidies.

To be able to make use of state subsidies, the ministries stipulated the obligation to provide a total amount of HUF 800

³⁰ See points 28 and 29 of the Appendix.

million from the beneficiaries' own resources, which demonstrates that in the fulfilment of public benefit tasks it was not possible to mobilise resources falling outside the scope of public finance.

One of the legally stipulated conditions for the utilisation of public moneys and for their transparency is sufficient information to the public. However, this condition was not met fully either by the ministries or by the audited (public) foundations, since half of the ministries published only a part of the subsidy possibilities in advance, 4 ministries did not publish any such possibilities, and more than one-sixth of the public benefit or priority public benefit (public) foundations, including two public foundations established by the state, did not publish the most important data of their financial management.

The violations of law and the procedural mistakes discovered in the awarding of, the accounting with, and the utilisation of, the subsidies from the central budget are attributable to the shortcomings of the legal regulations; in view of the lack of law observing behaviour on the part of the ministries and boards of trustees, the SAO proposed the fulfilment of more tasks and in more details than was usual.

The subsidies provided to **social organisations and public bodies** amounted to about one-fifth of the subsidies extended to non-profit organisations.

Among the basic principles set forth in the act on public finance, the requirement of completeness, uniformity, lucidity and publicity was not applied duly in the system of distribution. The omission of the requirement of completeness was indicated by the fact that, relying on the system of financial information, it was not possible to establish the exact size of the central budgetary subsidy provided to the social organisations and public bodies. No budgetary data with appropriate depth and breakdown were available concerning the central budgetary subsidy provided to social organisations and public bodies; the amount of the subsidy could only be estimated.

93 per cent of the central budgetary subsidies were distributed under the authority of ministries, 7 per cent under the decision-making authority of segregated state funds, while 0.3 per cent upon the recommendations of the parliamentary committees. In the period from 1998 to 2001, 80 per cent of the central subsidies were distributed on the basis of individual decisions.

In the present system of money distribution, the financing of the public tasks to be fulfilled by the state and the financing of the activities falling outside the state obligations

were not separated from each other. No survey was made of the financing requirement of the assumed state tasks.

In respect of the four years, the number of the organisations receiving labelled subsidies under the annual budget acts moved between 22 and 26, thus, on an annual average, only 1 organisation out of 1000 received subsidy in this form of support.

In the audited period the distribution of non-labelled subsidies took place on the basis of applications and individual judgements. Between 1998 and 2001, 80 per cent of the organisations won their subsidies by way of applications, however, the amount of such subsidies formed only 20 per cent of the amount of subsidies provided by decisions under chapter authority.

The system of subsidies by application was not uniform, its content varied according to ministries and invitations for applications. Those who invited the applications did not always observe the deadlines for decision and financing, which caused financial difficulties for the users.

1.4. Utilisation of the audits

An increased interest in the work of the SAO is experienced each year. In the years following the beginning of SAO activity, increased interest was shown primarily towards the systemised information included in the audit reports exploring the state of affairs. The ensuing period was characterised by the inclusion in the regulating system of public finance and the management of state life of an increasing number of our proposals aiming to prevent irregularities and to improve operations. This process, still continuing today, indicates to us that the democratic system of institutions and public opinion of the country rely on the work of the institution.

As was reaffirmed in its resolution approving the report on the activities of the SAO in 2001, No. 69/2002. (X. 4.), the National Assembly considers it important that the SAO monitor the utilisation of the audit findings with increased attention and submit information containing assessments on the situation in the framework of its annual reports, a requirement in line with developed practice.

1.4.1. Implementation of the recommendations by the National Assembly

At the time of legislating the act on the annual financial statements for 2001, the National Assembly approved, on the basis of the SAO proposals, the demand of local governments for repayments and supplementary subsidies, as well as the amendments to the act on public finance. The amendments were directed towards the system of internal audits, the making of the system of a priori audits more accurate, and towards

gradually making the audits qualifying the regularity of the reports comprehensive, relying on budgetary supervision also.

During the debate on the annual reports of the MTI Rt. for the years 1997 - 2001, by accepting the draft resolution of the Committee of Culture and the Media, the National Assembly, based on the proposals of the SAO report³¹, approved the amended balance sheet and the amended profit and loss statement of the organisation, and, in order to ensure a more efficient operation, proprietary management and control of the company, decided to hold a comprehensive proprietary revision of the operational process and a review of the legal regulation.

As a result of our proposals made on a number of occasions, the system of sharing the personal income tax (SZJA) between the central budget and the local governments has been modified as of 2003. The proportion unconditionally due to every settlement local government, which in principle can be utilised without any conditions, increased from the 5 per cent existing until now to 10 per cent. The revenues of the local governments have also been increased by the regulation according to which the total amount of the motor vehicle tax collected by the local governments will remain with them.

In accordance with our proposal, in 2003 there was a further tightening in the conditions for the utilisation of, and the accounting with, the subsidies steadily provided to the local governments that are unable to operate.

The SAO proposal related to the stimulation and promotion of the operation of internal audit associations by subsidies from the budget was incorporated in the budget act for 2003 as a centralised title.

The budget act for 2003 made the range of the developments that could be realised from labelled and targeted subsidies and the conditions for using such subsidies more accurate. In addition to the priority supported field of sewage disposal and sewage treatment, the provision of health care for hospitalised in-patients and the ensuring of the material conditions for fulfilling social, public education and cultural tasks were also emphasised.

As of 2002, based on our proposal, progress was made in the practice of implementing the right for VAT deductions. In 2001 the assertion of the right of making VAT deduction with respect to sewage public utility investments realised with the help of targeted subsidies continued to cause uncertainties for the local governments. In accordance with the amended regulation, the recipient of central subsidies cannot change

³¹ See point 22 of the Appendix.

during the period of investment realisation, and only the recipient of the subsidy (the managing local government) is entitled to submit unsettled, verified and certified invoices confirming performance to the financial institution.

Based on the audit experiences related to the activity of duty fee offices, the amendments formulated in the budget act deal with the rules of assuming the operational expenses of the duty fee offices. The possibility of deducting the incurred expenses from the proceeds collected by the metropolitan and county duty fee offices prior to the redistribution of these proceeds between the counties and the capital, the 'sharing' of expenses implemented in that form, ceases to exist. The measure taken thereby introduces a greater degree of interest in the assumption of the expenses connected to the collection of duty fees, in the elaboration of cost-saving measures. Simultaneously, the proportion to be remitted to the treasury decreased from 70 to 65 per cent, two-thirds of which are due in equal amounts, and one-third in proportion of the number of residents, to the capital and the county local governments - following the treasury division.

Some progress was made in regulating the shared division of the proceeds due to the local government of Budapest and the local governments of the various districts of Budapest, this having been the cause for debate for a number of years. By amending the act on the local governments, the National Assembly satisfied its legislative obligation provided for by a resolution of the Constitutional Court. Now, the act contains the principles of resources division, however, the detailed regulation of the way the division is to take place (the normative methods of dividing the resources), as well as the tasks taken into account in the calculations are intended to be resolved in a separate act legislated at a later date.

Progress can also be experienced in the clear definition of the content of the statement of assets to be annexed to the annual financial statements of the local governments, a task which has been insisted upon by the SAO for years. The bill submitted as an amendment to the act on local governments provides for the definition of the content of the statement of assets in a separate legal regulation.

The requirement of ensuring congruency between the amounts of the contributions and subsidies due to the local governments can perhaps be met by the fact that as of 1 January 2001 (among the combined data of the act on the annual financial statements and the reports submitted by the local governments) the act on public finance made it the task of the Public Finance Offices and the Regional Public Finance Offices to make a regularity review of the year-end accounts on the subsidies and contributions provided to the local governments from the central budget and included in the allocation of the Ministry of Interior chapter.

In the course of the past years we have objected, on a number of occasions, to the low level of efficiency in the utilisation of the subsidy provided to public purpose employment. As of 2003, in function of the utilisation of the subsidies provided in the first half-year, a possibility will open to redistribute the resources and, in case of deficit, it will be possible to make use of the labour market reserve.

1.4.2. Implementation of the recommendations by the Government

To monitor the utilisation of the recommendations and proposals made during the SAO audits, in 2002 the State Audit Office, in line with the practice followed in previous years, sought information from the heads of the various ministries about the utilisation of the recommendations made in connection with the annual audits. The persons concerned have fulfilled the request.

This information is an important source for the SAO, because there is no legal regulation with general validity on the taking into account of the proposals of the State Audit Office, besides the initiation of legal steps to restore legality. Consideration of the recommendations aimed at expediency and effectiveness is not compulsory, but is left to the discretion of those concerned; it is, therefore, an endeavour of outstanding importance on the part of the SAO to ensure that the audited entities accepted the findings and the proposals for improvements following from these findings even during the process of auditing.

Based on the audits, in 2002 the SAO actually formulated 237 recommendations to the address of the different chapters, and 30 per cent of these recommendations required amendments to legal regulations.

In most cases, the ministries gave concrete and detailed replies concerning the possibilities to solve the problems raised, on the initiated amendments to legal regulations, and about the measures that had already been taken or that were in progress. In the case of 4 ministries, programmes of action were prepared to solve the problems of legality and regularity. According to the replies, some 43 per cent of the proposals had already been implemented by taking concrete measures or through amendments to legal regulations. The recommendations whose implementation is being prepared, is in progress or depends on amendments to some other legal regulations, represent nearly the same proportion (42 per cent). The proportion of the implemented proposals and the proposals that induced concrete steps increased compared to the previous year.

In the case of the remaining proposals (15 per cent) no effective measures were recorded. According to the information received from the Ministers, in relation to certain proposals no measures were taken or, in view of expediency and competence,

no measures were considered to be justified (this was mostly the case in respect of the Ministry of Finance), and a number of other proposals were not touched upon in the ministerial replies.

As in previous years, it was again the case that, in connection with the information requested for the preparation of the annual report, some of those who replied subsequently questioned the expediency of the proposals that had already been accepted by the Ministry (the Minister) in the process of coordination completed earlier. (Thus, for example, the proposals regarding the breakdown of the VAT revenues belonging to the competence of APEH, as well as the planning of excise and consumption taxes under separate sub-titles, the disposition on the income surplus or deficit of the segregated state funds or the proposals aiming to amend the act on duty fees in respect of fixing the advance fees within the framework of simplified procedures were, in connection with the bill on the annual financial statements for 2001, subsequently qualified as unjustified.) In these cases the SAO could only identify with the positions and observations differing from those taken earlier if they had been the results of government decisions or due to changes in the circumstances.

In its report on the audit performed of the annual financial statements for 2001, the SAO formulated recommendations affecting the head of every chapter. According to the information received from the Ministers, the effective implementation of the proposals, referring basically to the implementation of the requirements related to regularity and internal audit (revising and updating the deeds of foundation and the managerial, financial and accounting regulations of the institutions and economic companies founded under their authority, performing management audits and audits built into the labour process, increasing the effectiveness of such audits, carrying out data comparison in respect of the annual financial statements) would promote the reliability of the annual financial statements for the following year.

During its audits, the SAO monitors the implementation of the measures indicated in the replies, and its reports contain information on them. The most important SAO recommendations and the replies given are summarised in Annex 5.

The SAO proposals can be implemented with a greater or lesser delay, due to the time requirements of legislative work. The following paragraphs contain information on a few proposals implemented under governmental authority.

Connected to the agenda of the Plenary Meeting, the Economic Committee discussed the SAO report on the audit held on the fulfilment of the solid waste management tasks under the responsibility of the local governments of settlements. In its

submission, the Government took the findings and experiences of the report into account.

With the amendment to governmental decree No. 249/2000. (XII. 24.) Korm., effective as of 1 January 2002, the range of local governments subjected to the obligation of auditing was, on our proposal, brought into line, with the provisions included in article 92/A of the act on the local governments in respect of the documents made available to the SAO.

Based on our proposal formulated to the Government following the audit of the Ministry of Interior chapter, in governmental decree No. 150/2002. (VII. 2.) Korm., the Government, upon the initiative of the Ministry, amended the government decree stipulating the tasks and powers of the Minister of Interior.

In view of the recommendation of the audit performed on the developments being realised in Hungary in the framework of the NATO Security Invest Program (NSIP) and based on the initiative of the Ministry of Defence, in 2002 the Government issued its decree No. 164/2002. (VIII. 2.) Korm. on the conditions for the right to participate in the tenders invited in the framework of the Security Investment Programme of the North Atlantic Treaty Organisation, on the rules for obtaining this right and on the organisation carrying out the procedures.

1.4.3. Implementation of the proposals by the audited organisations

In every case the SAO evaluates the realisation of the findings and proposals of its earlier audits, and the planned and the implemented measures taken in that regard. We placed a special emphasis on the realisation of our recommendations made in the course of the comprehensive audits of the budgetary chapters in respect of strengthening the operation of internal control mechanisms, and thus reducing the audit risks.

In the course of their activity, the audited organisations endeavoured to eliminate the detected irregularities, defects and shortcomings. The favourable effects of steps taken to this end were reflected in the regulated activities and operations, and in the improvement of the level of financial management. At the same time, the tasks reported back in the action plans were not implemented fully or in accordance with the envisaged schedule by every organisation. It also happened that the planned measure was implemented after the deadline set, following the next audit of the State Audit Office.

Some of our earlier proposals became obsolete due to a transformation of the task and/or the organisation related to the audited field, or their utilisation could not be monitored.

In general, the audited organisations, based on the recommendations made in the course of our audits in 2002, prepared action plans, which we considered to be in line with our find

ings and suitable to eliminate the defects and shortcomings. The fact that the mayors concerned did not react to our proposals made during the audit on the environmental protection investments in Western-Transdanubia with respect to the question of complying with the rules of investment and, especially, with the rules of public procurements and the handling of the investment documents, was an exception to this general statement.

The local governments accepted the proposals we made during the audits, and they did not dispute the justification of our findings. Two-thirds of the audited local governments prepared appropriate action plans to address the discovered shortcomings, and forwarded them to the SAO.

1.4.4. Criminal charges, notifications of public interest

In 2002, the SAO initiated **criminal procedures** following 12 on-site audits. An investigation was initiated in each case. The substance of the 12 criminal charges is characterised by the fact that in 11 cases the violation of accounting discipline, in 2 cases the securing of unauthorised economic benefits, in 2 cases mismanagement, in 1 case the falsification of private documents and in 1 case embezzlement was the subject of the well-founded suspicion. Characteristically, the actual circumstances discovered in our audit reports did not involve large-scale, complex criminal acts of a corruption character; instead, they indicated substantive and formal shortcomings of the management of financial resources and assets. The 12 criminal charges related to 12 small or medium-sized village local governments, from which it can also be concluded that, for various reasons, the disregard of management discipline is a recurring problem with the smaller local governments.

The 12 criminal charges concerned 22 suspects (mayor, notary, management officer, cashier).

According to the data we have accumulated since 1990, up to the end of 2002 criminal procedure was initiated on several grounds as a result of a total of 40 audits, and these charges involved 105 (89 known and 16 unknown) persons.

The chapter and other audits usually represent more complex tasks than the audits of the local governments, since in such cases it is not easy to support the shortcomings of management with pieces of information and documents. Our reports published in relation to these cases contributed to the supervisory or other organs concerned taking the organisational and personal steps necessary to restore management discipline. More than once it happened that criminal liability was enforced by relying upon the data of SAO audits supplemented by the data of supervision or internal audits.

The overwhelming majority of the irregularities discovered by the SAO belonged to the category of disciplinary offences. The enforcement of disciplinary liability is largely obstructed by the fact that, although the provisions of the act on the State Audit Office authorise the SAO to initiate the enforcement of labour law liability, neither the act on the State Audit Office nor other regulations contain the obligation of the audited organ to start disciplinary investigations based on SAO initiatives. **A step forward in this field would be for the act on the State Audit Office, similarly to the act on the prosecutor's office, to stipulate the obligation of the employer to start disciplinary procedure on SAO initiatives.**

We raise criminal liability in any case where, based on the audit findings and the professional opinion of the legal machinery of the SAO, there is a well-founded suspicion of criminal offence. Our working relations with the investigating authorities were also favourably influenced by the fact that that the President and the senior officers of the SAO maintained regular and continual professional contact with the senior officers of the prosecutor's office and the upper management of the various investigating authorities. This also played a part in ensuring that the investigation in cases that we consider to be of special importance took place under the increased supervision of prosecution.

The prosecutor's office and the police called on us in connection with cases where someone else made criminal charges, and in such instances, in order to clarify the actual circumstances, they made use of our audit experiences. We, of course, make our audit reports available to the authorities, if necessary in retrospect going back several years.

In our report on the activity of the SAO in 2001, we already mentioned that according to the rules of procedure the judiciary is not obliged to report back on the course or the completion of the proceedings initiated by the SAO. We have already raised the need to ensure that the SAO receives information on the progress of the criminal proceedings it has initiated. In this respect the situation has not yet changed. As in the past, the SAO does not have any information on the results of the proceedings it has initiated earlier. Therefore, we again raise the need to amend the rules of the relevant criminal proceedings.

We could strengthen the justification of our proposals if we had experiences regarding the adjudicative practices developed by the judiciary in the field of personal liabilities raised in connection with public finance. In this field, attitudes differ.

This is supported by a number of cases; thus, in the case of the proceeding initiated on our charges in 2001 regarding the National Armenian Council was terminated at the prosecu

tion stage, because the prosecutor's office considered that the field of corporate responsibility and also the responsibility of the president of the self-government were not regulated in respect of the minority councils. In our recurring audits we intend to make proposals to the effect that regulation should make the regulation of personal liability clearer.

The problems are partially solved somewhat, and unified judgement is promoted, by the fact that as a result of the cooperation between the Supreme Court and the leadership of the SAO, the State Audit Office will receive regular information on the progress of its initiatives reaching the court stage, and that it will inform the Chief Prosecutor's Office of its penal initiatives, irrespective of the police or prosecution organ where the initiative was made, thereby ensuring that its initiatives would be drawn under increased control.

In the course of the last 5 years altogether 1,114 **submissions of public interest** reached the SAO. Of these, in 2002, the addressee of 214 notifications and complaints, less in number than in the previous years, and the addressee of 88 requests was an organisation.

Breakdown of the public interest notifications made in 2002 according to their subjects

Related to local governments	148	69%
Related to minority self-governments	18	8%
Related to the utilisation of state subsidies	21	10%
Other, not falling under any of the above	27	13%
Total	214	100%

No change was experienced in the subject of notifications. In line with the services of interest to the population, the tax paying citizens, and with the local demands, possibilities and limitations influencing everyday life, it is only natural that the proportion of notifications related to the financial management of the local governments, the shortcomings of the relevant regulations, the alleged or actual corrupt practices of local government leaders and, furthermore, to the subsidies provided to the local governments from the state budget, is decisive. These constituted more than two-thirds of the submissions made in 2002.

A part of the notifications arrived at the SAO by remittals from other organs (public administration offices, APEH, prosecutor's offices). These notifications request, almost without exception, the auditing of the financial management of local governments.

As an auditing organisation, the SAO is not authorised to issue a position. In accordance with the practice followed so

far, it is frequent that, in addition to persons, official organs also ask for the position of the SAO. All this demonstrates that, due to various motivations, there is a genuine demand to know the professional judgement and position of the SAO. Without authority, these notifications and requisitions had to be turned down, while providing the entities concerned with appropriate information.

In 2002, 13 per cent of the notifications were used in the audits in such a way that the audits in progress or the audits planned touched upon the indicated problem. It also happened that an audit was programmed precisely because of the notification. Due a lack of authority, the SAO rejected nearly 14 per cent of the notifications or remitted them to other organs with the necessary competence. The organs to whom the notifications or complaints had partially or fully been remitted, due to a lack of authority and with a request for information, gave appropriate information to the SAO. Taking into account the audit plan and due to a lack of capacity there was no opportunity to ordain a direct audit in the case of 28 per cent of the notifications.

The same orders of magnitude and proportions were characteristic of the breakdown of the entities submitting notifications over the past five years. About 25 to 30 per cent of the notifications (35 per cent in 2002) arrived at the SAO anonymously. According to the developed practice, such notifications, and the notifications not asking for investigations because they were by way of information, did not require any further measures, except in cases where the gravity of the notification justified it, or in cases where the notification reported a well-founded suspicion of a criminal offence. In this last case, the notification is remitted to the competent authority so that the necessary measures may be taken.

**The distribution of notifications made in 2002
by the entity submitting them**

Anonymous	74	35%
Private person	107	50%
Member of local government, mayor	11	5%
Other (economic organisation, trade union)	22	10%
Total	214	100%

1.4.5. The extent to which the audits are public

In addition to the developed and time-tested practices, new elements also appeared in the information activity of the SAO in 2002 as parts of an endeavour to provide pertinent information and implement a function of communication operating in a systematic manner.

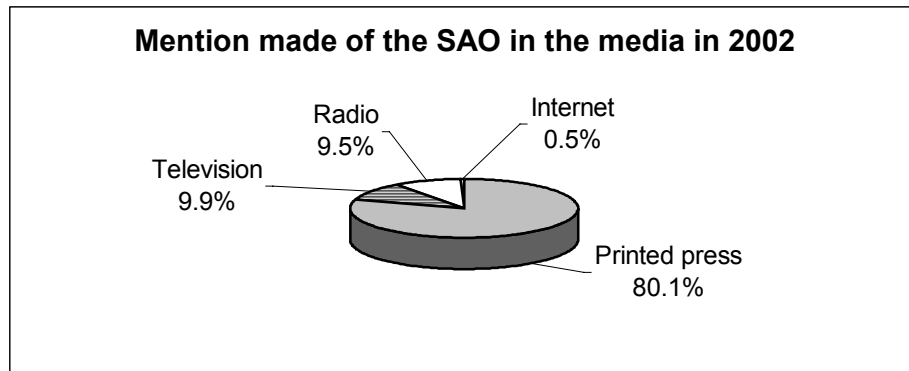
In the field of information on the audit experiences and on the SAO activity we continued to consider the provision of information to the decision-making process of the National Assembly as the most important task of our information activity. In addition, we continued to send our reports, both in printed and in electronic forms to libraries. The summaries of the reports were published in the *Hivatalos Értesítő [Official Bulletin]* forming the annex of the *Magyar Közlöny [Hungarian Gazette]*, while the reports on the audits performed in respect of the local governments were published in the *Önkormányzati Tájékoztató [Local Government Information]* reaching all the local governments. Our Internet homepage, with 31 thousand visitors annually, continued to be the most popular source of information, and here the full text of reports, information on the organisation and, furthermore, English language summaries of the reports are available.

In order to acquaint the general public with the reports we have so far relied upon the co-operation of the press. The regular press conferences, interviews and professional articles, the documents available on our Internet homepage and in many libraries covered the demand for information on our work. By promoting and organising our press relations we endeavour, on a continuous basis, to ensure that the publications should increasingly reflect the opinion of the SAO and its findings. We have been developing this practice for years. By way of implementing the objective set forth in the SAO strategy, we have started to ensure that the reports are made available to the general public without intermediaries, in the shortest and the most authentic way possible. In order to increase the proportion of direct information free from any distortions, we have made use of the possibilities offered by the Internet.

In 2002, we renewed our Internet homepage, which was enriched primarily with professional pieces of information and supplemented by new sections (news, events, European audit). In 2002 we prepared a new public relation opportunity, operative as of 2003, which will be available at regular, pre-determined times (Presidential consulting hour) or in a continuous manner (Forum of SAO reports). The 'Presidential consulting hour' will offer users of Internet the opportunity to pose their questions concerning various subjects directly to the President and senior officers of the SAO and on pre-published dates, most likely once in every three months, and they will receive immediate answers. The 'Forum of SAO reports' will make it possible to raise questions in respect of any public reports at any time.

It has become regular for the leaders and staff members of the SAO to hold lectures and publish special articles on outstanding professional tasks. In co-ordination with the press conferences, the President of the SAO gave radio and television interviews to raise interest in the reports. His participation

in the forums organised by the Internet news media was also followed with interest.



Note: Data in the printed and electronic media monitored by the Observer.

The number of publications and radio and television interviews was about the same as in previous years. About 5 to 6 press conferences are connected to published reports, some 40 each year. It has become a time-tested procedure to furnish press correspondents with summaries of the reports published in the course of a quarter of a year, in addition to our new reports presented in the framework of press conferences. Due to the relatively uneven publication of our reports, it happened that some audit topics did not receive the attention in publicity that is commensurate with their importance.

The annual report for the year 2001 was presented at an independent press conference, where both the Speaker of the National Assembly and the President of the SAO took part. The participants were unanimous in considering that the discussion and adoption of the annual report in the Plenary Meeting would underline the significance of audit activity in promoting the work of the Members of Parliament. It was emphasised that in the period of accession to the EU, legislation should rely increasingly upon the audit experiences, while audit activity would implement the harmonisation of the audit methods.

The parliamentary elections made it necessary, and provided the opportunity for the SAO to publish fresh information about itself. It was in this spirit that the publication of the renewed 'Strategy', laying down the tasks for the coming years, was prepared. The publications introducing the SAO were also issued in a new form and with a fresh contents in two executions. The publications, one concise and providing a quick overview in the form of a folding leaflet, and the other more extended booklet offering a more detailed introduction are available in English too. These publications are primarily intended to assist the newly elected Members of Parliament, but they also provide information in our internal and external relations too. A CD-ROM introducing the work of the SAO was made

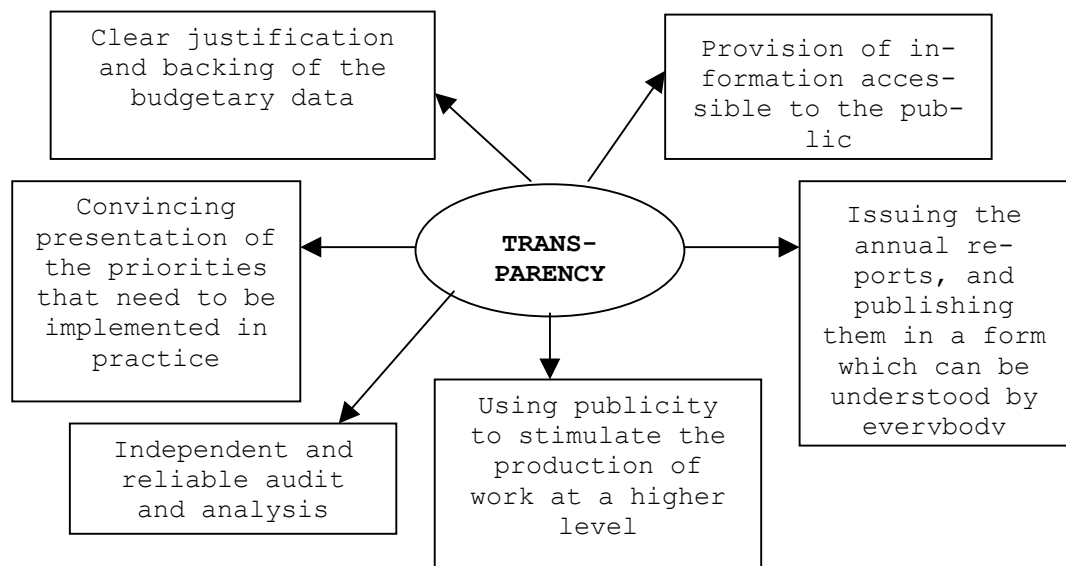
for the first time, which, in view of the INTOSAI congress of 2004, will also serve as a kind of publicity for the country.

The design of the company image is an element of public relations and information activity. Accordingly, in addition to renewing the content elements, the form of our publications has also been changed. In the moderate reshaping of the cover page of the different information materials and reports, one of the objectives was to improve their capabilities for retrieval and to make them more distinctive.

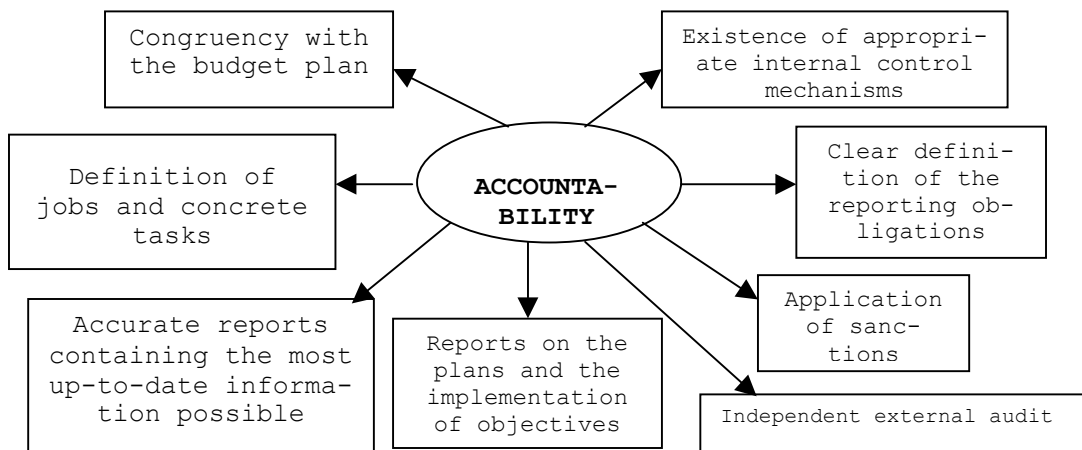
1.5. Some conclusions

Based on the experience of a number of years, it can be stated that an outstanding proportion of the proposals of the State Audit Office made in connection with budget implementation are realised. On the other hand, in the field of legislative work, the recommendations requiring amendments to the system are not implemented in proportion to their weight, despite the fact that the organs of government are typically in agreement with them. In some cases the full utilisation of these proposals requires the amendment of several interrelated legal regulations, which is often possible only in the course of more than one government cycle. The SAO is aware of the fact that the comprehensive, system-oriented changes can only be implemented gradually, in consultation and co-ordination with the financial government and the various line ministries, through a moderation of counter-interests, if the work setting the basis for progress worthy of a reform is speeded up in an organised fashion, if the strategic foundations of the necessary changes are created, and if agreement is reached on the financing of the large providing systems: health care, education and the system of local governments.

Consequently, we must again and again call the attention to the defects, shortcomings and contradictions experienced in the course of the audits that appear in the regulations contained in parliamentary acts and other legal instruments regarding the preparation of decisions, decision-making, implementation and the process of their competent auditing and assessment. It is especially so, when year after year we meet a number of recurrent problems that are important from the points of view of both economic and social developments, and experience the sluggish implementation of measures already decided. This is the reason why, despite the changes being realised in the longer-run and showing a tendency to produce positive effects, our reports continue to signal similar problems awaiting solution.



The efficiency of meeting the public finance objectives is largely dependent upon the institutionalised system of the rules according to which the budgetary organisations operate. Among them, the comprehensive nature, accountability and transparency of the budget have a decisive role to play. Transparency sustains accountability. Full and regulated budgetary and financial information available at concrete points in time are important elements of the information to executives, legislators and the public.



In addition to all this, international linkages and the accession to the European Union dictate that we should achieve progress in the field of transparency and accountability, which is our own interest too. This requires the development of internal (governmental) audit, which is of primary importance not only from the point of view of the transparent operation of public finance, but also with respect to decreasing the risks of corruption. Supervision which operates soundly and effectively, and the financial audit performed by the State Audit Office can together ensure the closed system of auditing

budget implementation. In parallel, the system of internal audit must also be developed in the sub-system of the local governments, and its operational shortcomings must be eliminated. The demand for increasing transparency and accountability appears when public moneys, as part of the processes of their utilisation, leave the system of public finance.

The elaboration of the system of state accounting, its introduction and application is one of the basic conditions for ensuring the transparency of the financial means managed by the sub-systems of public finance, for their consistent and closed system based on unified principles and regulations and for the possibility for their complete auditing.

It is important to be consistent in the implementation of the endeavours and initiatives that serve to develop of the system of effective financial audit in the field of public finance and, in general, to strengthen the professional culture of auditing. The SAO supports the development of transparency and accountability in the field of budget management by performing system audits, carrying out training, publishing guide-books, using its international experience, assisting the improvement of the audit work through measures aimed to improve the quality of audit work, and by extending professional assistance in the introduction of university and college education of auditors.

According to our experience in "applying the law", now more than a decade, the act on the State Audit Office stood the test of time, and it has provided an appropriate framework for operation. Although in the meantime it has been amended 13 times, these amendments were typically connected to the act on civil servants and meant changes that were connected to the staff. In the near future, another amendment can be expected to the act on the State Audit Office, connected to the amendment of certain acts dealing with the utilisation of public moneys, with the publicity of the use of public assets, with making that use more transparent and with the broadening of its audits,. The earlier amendments did not touch upon the regulations which had become obsolete due to the changes in the management of public finance or non-applicable under the present circumstances (e.g., ex ante audits, opining of the government programmes submitted to the National Assembly). Nevertheless, the changes in the socio-economic environment, the modernisation of public finance and the intention to meet the EU requirements raise the need to enact new regulations in respect of the independence of the highest audit organisation. **In order to ensure that the SAO discharges all of its constitutional functions, it is necessary to review the act on the State Audit Office, and to render it more accurate and up to date.**

2. DEVELOPING THE QUALITY OF AUDIT WORK

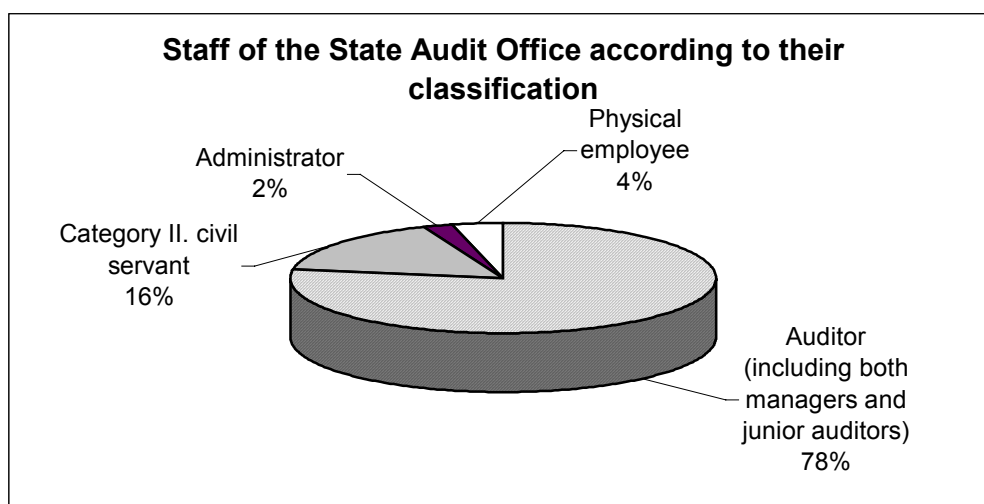
Internationally, the improvement of the competitiveness of the national economy and, connected to this, the renovation and reform of the operation of the public sphere, the operation of public finance and the financial system operating in a reasonable and transparent way, are some of the most important indicators reflecting the level of a country's development and its readiness for integration. Efficient and transparent public finance also requires and presupposes the system of an up-to-date system of financial audits.

In order to meet these objectives, the SAO has elaborated its strategies on human resources and on methodological support, and fulfils its tasks on the basis of these strategies.

2.1. Management and development of human resources

2.1.1. Personal conditions

In 2002, the organisational and operational system of the State Audit Office underwent substantial changes. The President of the organisation (until the election of the Vice-Presidents) relies primarily on the heads of the three main units, the Secretary-General and the two Directors-General heading the audit directorates. The restructuring resulted in manifold and significant internal staff movements.



In the spirit of the medium-term strategy of human policy, due partly to the retirement of senior staff members belonging to the core professional staff since the establishment of the SAO, and partly to the recruitment of a greater number of auditors in the youngest age-group, to the admission of junior auditors, the process of rejuvenation continued. This process was made possible by the programme increasing audit capacities and expanding the number of staff members, a programme developed with the support of the National Assembly.

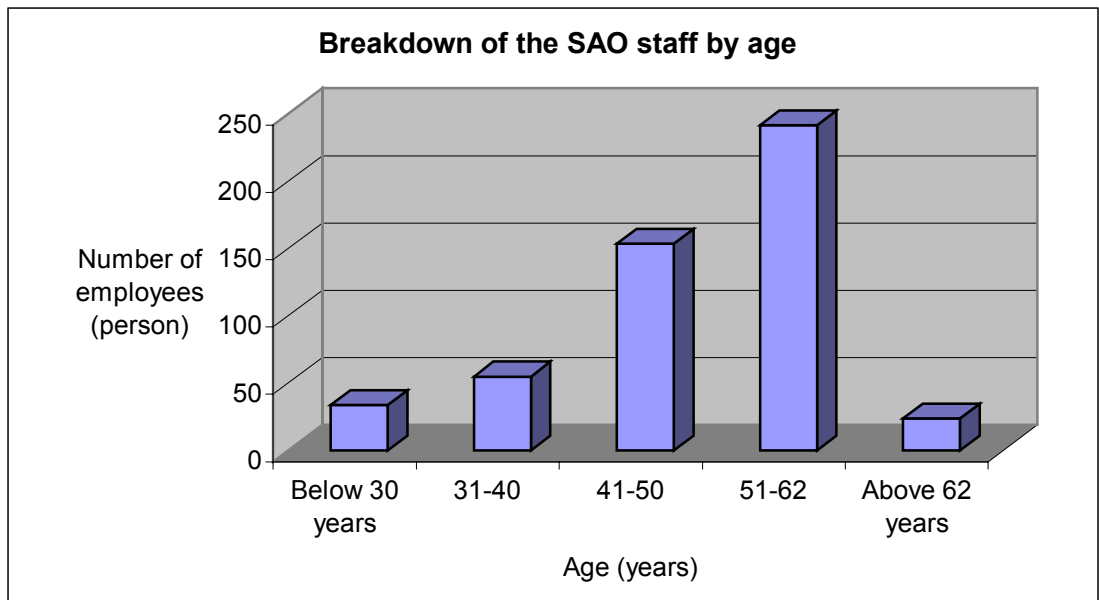
Rejuvenation, as in the case of the staff refreshment started in all Hungarian public administration, means the importing of more up-to-date professional knowledge, a broader knowledge of foreign languages and up-to-date information technology skills. At the same time, we also take steps to ensure that our auditors become competitive in the international professional field and that they are able to cope with the requirements of the European Union, and of work in other organisations and committees. In 2002, there were 22 junior auditors starting their career with the SAO; their number is going to increase in 2003. However, rejuvenation has its limitations, since professional, audit experience is indispensable in maintaining the audit quality in the activity of the organisation as a whole.

The greater prominence of younger auditors, and here we do not only mean those starting their career, also raises the question of systematic internal career development. Training and further training, with a changing content, are of an educational character; promotions and the organisation of senior staff replacements require human resources planning and measures. The management of the SAO keeps continuous track of the medium-term programme of staff development; it discussed its scheduled objectives and report as part of a Presidential meeting in 2002.

The reorganisation of 1 January 2002 also modified the division of employment and employer rights. Earlier, the employer rights were mainly assigned to elected officers; it was natural that, as a result of the professional and institutional independence, the authority of the heads of the three main units has increased in the field of personnel management. With the exception of the appointed senior auditors (whose employer continues to be the President of the SAO), the management of the most important personnel affairs related to the staff members - the questions of appointment, promotion and discharge - were transferred to the directorates. The issuing of the personal performance evaluations, institutionalised in 2002 by the act on civil servants, also became the task of the Secretary-General and the Directors-General.

On 31 December 2002, the total number of the SAO staff was 524. Movement of personnel - 76 new recruitments and 25 terminations of the service relation - considerably exceeded the average of previous years. Typically, it was mainly caused by the retirements and by an increase in the staff number due to the emerging new tasks. Over the course of 12 months, 65 auditors were appointed as members of the staff of auditors with a decisive role from the auditing capacity point of view. The indicators of professional training related to academic qualification and certifications of skill continue to be convincing: 27 new staff members have two or more university degrees, 26 staff members are certified accountants, 32 new employees speak at least one of the EU languages and 13 of them speak

more than one of them. The change of the structure of professional knowledge, mostly the development of linguistic abilities and information technology skills, is also related to the significant change that took place in the age structure. In 1999 the average age of the staff was 50 years, in 2001 48 years and in 2002 49 years. In 2002, the average age of the newly recruited employees was 38 years.



It is indicative of the social judgement and acceptance of the work of the State Audit Office that the number of people who seek employment with the organisation exceeds many times over the number of those that could actually be employed. Despite the fact that the majority of the applicants are newly graduated and do not have any practical experience, the broad basis of applicants facilitates the selection of replacements. The requirements for employment include professional knowledge (in the field of finance, accounting and audit), certified skill

in accountancy, the knowledge of English and French, which is used most widely in the EU institutions, and the internationally accepted ECDL test in information technology.

Again in 2002, a number of our staff members received high state or professional tributes and decorations. It is a special pleasure that the Hagelmayer István Prize, founded by the President of the SAO, has become known to the professional public. By his decoration, the latest prize-winner, Professor Dr. József Roóz, Rector of the Budapest College of Economics further increased the dignity and respect of this prize.

2.1.2. Training and further training

In 1999, the SAO prepared its 3-year medium-term further training plan, which primarily paid attention to the requirements of the preparation in the field of the audit profession to nearing accession to the EU, as well as the most important changes that have taken place in the qualification of the staff during the decade-long existence of the organisation. Consequently, the up-to-date standards of organising and implementing the development of audit methodological knowledge, especially in respect of financial audits and performance audits, as well as the tasks of the formation and development of skills connected to the gradual rejuvenation of the staff, were placed at the centre of the training programmes.

Although in 2001 the programme of education and retraining undertaken under the twinning agreement of 1999 made with the UK National Audit Office (NAO) officially closed, it did not mean the end of training with such programmes. The audit practice followed by Western European audit offices and the institutions of the European Union, leaders in audit organisation and in audit methodology, continue to be normative for the auditors of not only the SAO, but also for the staff of other financial audit organisations. In this spirit, in 2002, nearly one hundred staff members took part in the 'financial audit' course, mostly in the basic training, but twenty people completed the newly started special course focussing on concrete case studies. The introductory preparation for carrying out performance audits organised for those who earlier studied only the methods of financial audit continued. Since the SAO, within the limits of its possibilities, undertakes a mission also in the training of the audit specialists of other organisations (ministries, organs with national competence), in 2002 we ensured the possibility to participate in 'financial audit' training for 50 external colleagues.

The interest shown towards the institutional and operational systems of the EU is continuously high. Since the EU system of financial audits can only be understood with basic knowledge of the historically developed institutional-legal background, and of the 'acquis communautaire', we included a broad range of our staff members in the series of informative lectures

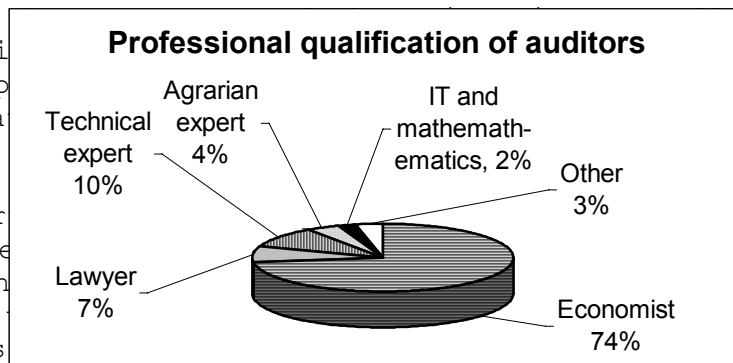
concentrating on the professional aspects. In the spirit of preparing to carry out financial audits on the structural and cohesion funds we organised a special training course for 25 auditors. In addition to the other courses related to the audit profession (auditing, statistical sampling, drawing up questionnaires, etc.) we have also organised more intensive training for more participants in developing communication skills.

We have registered nearly 300 applications for participation in information technology courses organised in-house or with professional external firms in the framework of contracts. Many among those with higher pre-training participated in more than one training course. Thematically, our information technology courses are developed in the system of the ECDL, which is an international norm of requirements. Due to this, an increasing number of our staff members sit for qualifying examinations.

A special task is the introduction of the new staff members of the SAO to our organisational-operational relations, and their preparation to participate in their first audits. It is especially important when, as in 2002, a lot of newly employed staff members are admitted. To protect the audit capacities, we spent 3 days on the organised preparation of each group of the newly employed. In fact, this is a kind of orientation and consultation assistance to ensure that our colleagues can independently study, and acquire knowledge of, the most important documents related to operation and professional activities. If

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In the framework of the internal retraining programme of the SAO for 2002, 964 staff members applied for participation in more than 60 programmes organised on 30 different topics and for enrolment in courses. All this does not include the external, post-graduate training taking place in the framework of the schooling system, and supported mostly through study contracts.

It is of outstanding importance in the long-run that as a result of negotiations and preparatory work we have created the technical and software conditions for the participation of our staff members in the system of computerised correspondence courses. The system of 'e-learning' type correspondence courses serves not only to train and orient our staff members participating in the courses, but also it brings the organisation of training itself and the continuous monitoring of the studies up to date.

2.2. Quality assurance

In harmony with the requirements and expectations of the National Assembly, to establish the foundations of the reliability of our audit findings and of the proposals formulated in our reports, in 2002 we operated the internal system of quality assurance of the SAO in an upgraded form. We built upon the audit standards of leading professional organisations: INTOSAI (International Organisation of Supreme Audit Institutions) and IFAC (International Federation of Accountants), as well as the recommendations included in the guidelines of the ECA (European Court of Auditors of the European Union). To ensure the internal control of our basic activity, we have assigned, as a part of the restructuring, the implementation of independent professional and legal supervision to the organisational framework of the Quality Assurance Department, the responsibility of which is supplemented by different tasks and which is placed under the direct supervision of the President.

The system of internal professional control built into the working process, and the system of managerial evaluations, have been developed within the audit directorates thereby creating the conditions to ensure that only those audit opinions and proposals which have been subject to a number of reviews and appraisals go into the audit reports. **The strengthening of internal controls was all the more necessary, because the relatively high proportion of new colleagues with high qualifications, who were however still inexperienced in the audit work performed by the State Audit Office required greater attention and an extended reviewing and correcting of their audit statements. Maintaining the professional level required more intensive efforts also because of the increasing tasks.**

In addition to the two-stage professional and legal reviews of the draft reports, the ex post quality assurance reviews of the audits performed in 2002 and selected through statistical sampling were performed as another step towards the development of the quality assurance system, and as new tasks of the Department. As part of this, those carrying out quality assurance evaluated whether the auditors carried out the audit work in compliance with the relevant professional stipulations. In view of the by-and-large favourable review experience, the Department submitted proposals for the development of the procedural rules and the methodology of audit activity.

Relying upon the Development and Methodological Institute of the SAO, we have continued to complete the internal professional manuals and syllabuses adapted to the international standards and leading practices, and to render them more accurate in order that the requirements and guarantee elements be implemented in the widest possible field, and that quality thus be measurable and accountable in a unified way in respect of the different types of audit.

2.3. Work on methodology

In the past few years, the SAO achieved considerable results in meeting the objectives set for developing audit procedures and methods. These results not only offer a basis for improving the professional level of the audit work of the State Audit Office, but they also contribute to the development of the system of financial audits in Hungary and to solving the problems and fulfilling the tasks raised during the preparation of Hungary's accession to the EU. Based on the attained results, it became possible to promote a more intensive professional communication between the organisations and experts concerned in the fields of auditing the use of public moneys, to bridge the different professional views, and to develop audit culture.

During the elaboration of different professional documents, broad discussion develops within the SAO in respect of the methodological development - in some cases with the participation of external experts. Audit activity cannot depart from the decisions made after the settlement of these discussions and from the developed methodological directives and internal regulations. The duties related to the co-ordination of the preparation and the development of professional documents, are carried out by the Methodological Committee set up within the institution. The various professional documents can be applied with the recommendation of the Committee. Reviewing the system of professional regulating documents, their classification into a unified hierarchy started in 2002.

The manuals on the financial and performance audits are available. During their preparation we relied on the audit standards of INTOSAI and on international audit practice. The manuals are to be improved and further developed in view of the experience that will be obtained in the course of their application during the years to come.

The SAO has acquired and continues to acquire considerable audit experience in connection with the assistance provided by the EU, which ensures a firm basis to our preparations to carry out the audit duties following EU accession. By the time of accession, the SAO must also develop the manuals offering directions for the auditing of the payments to be made to the EU budget and the assistance to come from the budget of the EU.

The Development and Methodological Institute of the SAO was established on 1 January 2002. As the background institute of the SAO, its task is to promote - by way of its scholarly development activity, its professional services, analyses and proposals - the endeavour of making the management of public money and public property transparent, of promoting the application of accountability and of spreading the national audit culture.

In 2002, the SAO called for applications regarding the post of Director-General with its Development and Methodological Institute to be filled as of 1 January 2003 for a period of five years. The call was published in the *Hivatalos Értesítő [Official Bulletin]* of the *Magyar Közlöny [Hungarian Gazette]*. In order to select the most suitable candidate a jury was set up in compliance with the relevant regulation, and the President of the SAO requested three senior staff members of the SAO and, in their quality as opining members, two external experts with educational and research practice and with scholarly authority to participate in that jury³².

The work of the Institute in 2002 concentrated upon the elaboration of studies, the carrying out of educational activities and on preparing professional publications and articles. The studies prepared by the Institute related partly directly to the tasks included in the SAO strategy, and partly directly to the preparation of audits, and provided support for daily professional work. Preparation for EU membership was served by two studies included in the workshop studies volume of the *European Mirror*. The studies present the fight taking place in the European Union against fraud and irregularities, and the audit work of the European Court of Auditors. The studies that dealt with the selection and development of audit criteria applicable to performance audits and with the system of the professional regulation of the audits on public moneys, were intended to contribute to the professional development of auditing and to the development of the system of professional regulation. The Institute promoted the various audits carried out by the State Audit Office and their preparation by collecting the related international audit experiences and by providing professional consultation services.

2.4. National and international relations promoting the audit work

In order to work to a high standard, we pay attention, in an organised framework, to the events of **professional public life in Hungary**, to the professional work and meetings taking place in social and scientific associations, and at universities and colleges that could be related to our activity. We co-operate

³² Having accepted the position of the jury, the President of the SAO sent written information to the Speaker of the National Assembly, the presidents of the Audit Committee, the Committee on Budget and Finance and the Economic Committee, as well as the Minister of Finance.

in the work of, and undertake leading roles in, several associations (Association of Hungarian Financial and Economic Auditors, Alliance of Management and Scientific Associations, Hungarian Society of Economists, Scientific Society of Organisation and Management). Based on earlier co-operation agreements we take part in the work of education carried out by universities and colleges, and while transferring our knowledge and experience we ourselves become richer in knowledge. We consider the development of our external relations to be an important element in our professional advancement.

In addition to the earlier agreements of the like, in 2002 a co-operation agreement was concluded between the Saint István University, the Sopron University in Western Hungary, and the SAO. The agreement concluded with the objective to make better use of the knowledge and experience of the SAO experts and of the educational and scientific capacities of the university. This agreement covers graduate and postgraduate education, as well as the activity in the fields of methodology and science, which - by increasing the knowledge of law and the level of management and organisation, by developing financial audit in compliance with the requirements of the European Union - contributes to the legal and efficient management of public money and public property.

In 2002, nearly 200 persons participated in training in external courses and in various Hungarian conferences (e.g., at the 10th Professional Conference of the Hungarian Chamber of Auditors and at the 10th National Public Administration Conference). The training courses and conferences resulted in the broadening of our professional knowledge, in consolidating our professional capabilities, and provided opportunities to spread knowledge of our experience and to use it.

The 4th Conference of Audit and Supervision organised by the Association of Hungarian Financial and Economic Auditors under the title of 'Challenges and Answers - Financial Audit at the Turn of the Millennium' was held in Miskolc. The SAO was represented at the conference by the participation of 23 persons.

In 2002, the staff members of the Development and Methodological Institute of the SAO undertook to implement a number of educational and retraining tasks listed in the internal retraining programmes of the SAO, to contribute to training in the framework of higher education and to fulfil the obligations of the SAO assumed at the international level. The conference on national audit standards organised by the Institute, and the series of events organised under the 'Institution Days' provided the opportunity to discuss a number of important professional problems concerning audit work.

The SAO consciously endeavours to ensure that its ever-widening **international relations** should always promote its professional skills and the activity of auditing. This is the

guiding principle of our tasks undertaken in international professional organisations and of the development of our bilateral relations.

In 2002 the focal points covered the preparation to the 18th Congress of INTOSAI to be convened in October 2004, the implementation of the requirements of accession to the European Union, the strengthening of concrete audit relations and the intensification of international activity. These relations found expression not only in visits abroad, in the reception of foreign guests at home and in the related tasks of maintaining contact, but also in the continual strengthening of the practically protocol-free working relations and in the participation (which has been in progress for years) in the development of the national, governmental financial audits in the interest of meeting the system of requirements of the European Union.

Without doubt, the greatest challenge to the SAO in the field of international relations is the organisation of 18th Congress of INTOSAI, the professional organisation of the supreme state audit institutions, to be held between 10 to 16 October 2004. In addition to other important topics, it is expected that significant decisions will also be made at the Congress, to take place with the participation of about 600 to 800 guests, including 160 to 180 leaders of ministerial rank. The organisational work is proceeding well, which was also recognised by the latest meeting of the INTOSAI Governing Board held in Vienna.

Mention must be made of our participation in the work of the European regional member organisation of INTOSAI, the EUROSAI. In the field of co-ordinating and preparing the topic of budgetary audits we assumed significant tasks in the preparation of the EUROSAI conference held in Moscow, in May 2002. The participants considered the organisation of the second training meeting of EUROSAI, the seminar dealing with performance audit (held in Budapest from 18 to 20 September 2002), which was prepared by the SAO in co-operation with the UK National Audit Office, to be very successful. A good month after the event, the full documentation of the seminar could already be read on the Internet.

The SAO has had an important role in co-operation between the candidate countries and the European Court of Auditors, an activity which has been going on since autumn 1996. In 2002, under the leadership of the working group established for the purpose, it attained important results in promoting audit co-operation among the audit offices of the candidate countries, but it also took an active part in the joint work going on in other professional topics, in the elaboration of the question of the content of audit manuals and of the system of requirements related to the quality assurance of audit work. In 2002, the SAO continued direct audit co-operation with the European

Court of Auditors in respect of their audits performed on PHARE and ISPA.

We have continuously taken part in the many activities going on in the framework of the 28th Working Group on Financial Audits of the EITB, in order to develop an internal audit model for the Hungarian Government which is also acceptable to the European Commission. We considered that the visit of the member of the European Commission responsible for budgetary matters made to our institution was a great privilege for us.

In respect of the NATO relations, our most important task was the preparation of the Budapest defence seminar to be held in May 2003.

In 2002 we performed more audits than ever in parallel with the audit offices of the neighbouring countries (Austria, Slovakia, Slovenia). Of these the most important was the parallel audit performed in co-operation with the Slovakian Audit Office in respect of the Mária Valéria bridge reconstructed from PHARE assistance, the report of which was drawn up in three languages (English, Hungarian, Slovak).

Of many bilateral relations, the seminar organised in co-operation with the Swiss Audit Office in April 2002 stood out. At our meetings in Switzerland, the participants showed interest primarily in the tasks of the State Audit Office in relation to certain subjects connected to accession to the EU (such as the Schengen border protection, environmental protection and agriculture). Our relations maintained with the Russian and the Polish supreme audit organisations have developed; we have signed agreements of co-operation with both. The correct and good relations maintained with the Austrian Audit Office have continued to be of outstanding importance, a sign of which was the border region meeting of the two Audit Office Presidents, which has already become a traditional event.

A new phenomenon in 2002 was that the audit offices or the parliamentary committees of countries with whom we have not had a high-level meeting for a long time, or with whom we have never had such meetings, called on the SAO. For example, a visit was made to the State Audit Office by the President of the Supreme Audit Chamber of the Russian Federation, but interest was shown towards the work of the SAO from China, Vietnam, and we had guests even from Bosnia-Herzegovina.

The SAO takes continual steps to ensure that its staff members are better qualified and an increasing number of them should be able to stand their ground internationally too. We consider it a significant achievement that we were able to nominate a Hungarian member to the OECD Board of Auditors for the period 2003 - 2006. The legal basis for this was established by the fact that, with the support of the Audit Committee, the relevant amendment had been made to the act on the State Audit Of

face making it possible for it to engage in working relations and to perform professional activity abroad. While we are promoting the further training of our staff members abroad (e.g., in the United States of America, at the European Court of Auditors, in Luxembourg, China, etc.) we are also making it possible for our partners in Central and Eastern Europe to acquire knowledge of developed audit methods. This was the case, e.g., in respect of the seminar on performance audit held by the General Accounting Office of the United States in Venice.

In addition to our practice of more than 13 years, the implementation of the strategic objectives, the audit concentrating on timely and important questions and fields, as well as up-to-date audit technology and quality assurances draw much from international co-operation. Today we are equal partners with equivalent organisations abroad. The exchange of experience is not a one-way street, because we also have knowledge to offer. Based on this, it can be said that the expenses incurred by the studies with our partner institutes abroad, on which significant amounts have been spent since the establishment of the SAO, are well recompensed.

2.5. Institutional information technology, relations in the field of information technology

As part of renewing the SAO strategy in 2002 and as a part of the supporting strategy, an IT strategy has also been worked out. It summarises the strategic objectives of the IT activity of the SAO, the basic principles and requirements of developments and operation. The developments of information technology and telecommunication by the SAO take place in accordance with the project plans defined in a detailed IT strategy, which has been brought up to date annually since 1996 and which is approved by the President of the organisation.

The information technology connection between the National Assembly and the SAO has been under continuous development, and direct access to the parliamentary computer network has been ensured on a continuous basis. A direct IT connection has made it possible for us to broaden many of our internal information services.

The computer network providing direct help to the work of the Office and to the internal information services, and the Lotus Notes correspondence system, have further been updated and they have increasingly become an indispensable tool for everyday work. From professional information, through information related to operation and programmes, to information on the publications appearing in the press which can be requested in various ways, to the reports on the study tours made abroad, as well as to the programs and the memos of the presidential meetings. With the processing of the minutes of the Plenary Meetings, with the highlighting of the references made on the SAO and of the submissions naming the SAO and relating to its

tasks, and as a result of finding and marking the minutes of committee discussions held on the SAO reports and the decisions that concern the SAO, broad possibilities have opened for monitoring, in the database developed within the system of Lotus Notes, the parliamentary discussion of, and the remarks made in connection with, the SAO reports and the submissions related to its tasks.

In 2002, based on a separate project plan, we started to develop our information technology system in view of the requirements of the 18th Congress of INTOSAI. We have invited public procurement tenders for designing, executing and installing the multilingual homepage of the Congress and its English language registration system. By the end of February 2003 both systems were installed, and as of March the homepage has been accessible on the Internet.

In 2002, we started updating the SAO homepage regarding both its substance and form. The 'Presidential consulting hour' and the 'Forum of SAO reports' were started on our homepage in January 2003.

We intend to support the objectives formulated in the SAO strategy on human policy by introducing the computerised framework system supporting the organisational and recording tasks of education which is also suitable for handling the educational materials of distant learning in accordance with international standards. The system has been operative since January 2003. The SAO employees can make use of the system to register directly for the internal training courses of the SAO; if there is computerised teaching material, the material and the examination questions are available to the registered students on the computer, and they also communicate with the lecturers on the computer.

In addition to developing the infrastructure we have developed new applications, and the systems already introduced have been under continuous development. In 2002 we completed the development of the meta-directory of the SAO, which contains the address information data of all the staff members of the SAO and its contracted employees. The address information data of the employees are automatically entered into the computer applications of the SAO (registration system of material assets, internal telephone directory, users of the Novell network, Notes address book, Szekreter, educational registration system). The developed system offers a full scale and reliable data source for the central, governmental directory too. The system was developed with the assistance of the Office of the Government Commissioner on Information Technology.

The application of the planning and working hour accounting modules of the Szekreter audit record system was started in 2002. This record system offers the possibility to continuously monitor the utilisation of capacity. The realisation

module, which serves to monitor the recommendations we made during the audits, will be introduced in the first quarter of 2003.

In parallel with the increasing quantity of information, the demand for orientation is also growing among the users of information. Consequently, there is an ever increasing demand for structured information, for the structured sources of information, thus for the library databases also. It is in this spirit that the Library of the SAO develops its services from year to year.

We have processed and published the lectures made, and the studies written, by the leaders and the staff members of the SAO in the press monitoring database, which has already been operating for a number of years. The articles appearing on the SAO in papers outside Budapest are forwarded to the leaders of the SAO and the members of the Audit Committee in the form of monthly collections. The periodicals, like the books, are processed in an integrated computer library system (TINLIB). This application represents a big step towards the establishment of an 'electronic library', because the system operates not only as a bibliographic database; it can store full text documents and ensure their retrieval. Our Internet services have been playing an increasingly important role in our information activities. We have continually broadened the accessibility of the on-line databases. These include the database containing the regulations of the European Union (CELEX), as well as the database providing EU information in Hungarian (EURO INFO SERVICE).

Also in the course of the past year, the demand-based, planned acquisition of the Hungarian and foreign language professional literature connected to the audit work of the SAO, its processing from several points of view and its transmittal to the staff members were completed by the Library, paying special attention to the employees working in the newly rented offices. It ensured to the staff members the possibility of reading on the spot, borrowing, information, data provision and copying services, and contributed to the integration of the newly employed. It provided the possibility to access the SAO reports by the public; journalists, students and citizens could read and copy them.

3. Operation and management of the institution

As in previous years, the report of the SAO on its financial management in 2002 is certified by an independent auditor selected through tenders. The auditors started their work in the period of preparing the report. The audit report will be sent to the Audit Committee by 30 April 2003.

In the budget act HUF 3,882.3 million was approved for fulfilling the SAO tasks of 2002. The amendments made in the

course of the year increased the appropriation by HUF 1,382.7 million, as a result of which a total amount of HUF 5,265 million was available. Basically, the change was the consequence of the amendment to the act on the status of civil servants, and of the approval of the money that remained from the previous year. The amount of utilisation was HUF 5,010.1 million, which is 95.2 per cent of the expenditure appropriation; HUF 135 million (2.6 per cent) of the rest represents a dropout of income (PHARE assistance), the rest (2.2 per cent) is fully committed for task implementation dragging over to the following year.

During its financial management in 2002, the SAO paid special attention to economising. While the replenishment of the workforce, on an annual average exceeded 97 per cent, the room for movement for financial management was determined by the proportion of personal benefits and social security contributions representing a total proportion of 77 per cent in the expenditures, the operation conditions for implementing the audit tasks had to be ensured from the remaining part, within which the proportion of material expenditure was 13 per cent, that of accumulation 10 per cent.

Despite the scarce resources, the SAO considered the development of the conditions of accommodation and the supply of equipment, the maintenance of the existing office buildings and their small-scale improvement as priority tasks.

Prior to 2002, the renovation and expansion of the headquarters building in Lónyay utca, began in 1999, almost fully committed the available budgetary resources; thus, the pressing reconstruction of the lower storeys of the central building in the Apáczai Csere János utca, built in 1869, could only begin in 2002. This year, the electric network of the lower storeys was renewed, because the distribution system and the cable network had grown old and overloaded, while the lighting equipment was out of date and wasteful. The work on the main electric distribution system and on the switching and distribution boxes was completed. In addition to the electric reconstruction, and in parallel with it, the surface of walls was also restored, and, through the construction of a false ceiling, the cable carrier structure was made suitable for performing future maintenance and restructuring work on the electric and structured information technology networks without demolition. Simultaneously, maintenance work on the doors and windows was performed while preparing the modernisation of the heating system to be started in 2003, which would then result in considerable savings in the future. This required the utilisation of a total amount of HUF 101 million. The installation of fire alarm devices was completed on the lower stories, and these can be controlled from the safety centre of the building. The reconstruction is going to be continued in 2003 and 2004, the expenses of which are expected to exceed the amount of HUF 100 million.

Due to a lack of resources only temporary solutions were applied to averting the dangers to life imminent in the condition of the façade of the headquarters building in the Apáczai Csere János utca. The general solution of this task, the full renovation of the façade, also taking into account the provisions of the protection of historic buildings, in the course of which the loosened bauxite concrete structure will also be removed, will be implemented in the summer of 2003. To complete this work, the SAO plans the utilisation of HUF 200 million.

The SAO attached outstanding importance to the renovation of the rented office buildings, of the Duna-house and the county offices, to the improvement of their operational conditions (in most cases in co-operation with the local governments). More than HUF 125 million was utilised for the realisation of this task, and for the expansion of the monitoring system related to the protection of the buildings.

Through centralised public procurement procedures 4 lower medium category vehicles of more than 6 years old were replaced in the motor vehicle park of the SAO and, to solve the problems of passenger transport, a microbus was purchased, the total cost of which was HUF 23 million.

On the ground level, as well as on the first and second storeys of the central headquarters building the unavoidable renovation of the wet blocks was carried out.

In order to better meet the information demand of the National Assembly, the SAO increased the capacity of its printing office and enlarged the range of machines, as a result of which it can almost fully meet the tasks of printing and book-binding.

The planned replacement of the machines, the pieces of equipment (fax, photocopying equipment, shredder) and furniture continued - as far as possible within the frameworks of centralised public procurement, but in view of the scarcity of resources at a slackening rate.

In the office premises rented in the Soroksári street Duna-house (due to an increase in the staff number connected to the new tasks defined by the National Assembly), the telecommunication network with 70 end-points was developed. This investment makes direct access to the computer network of the SAO possible also through the leased line connection from MATÁV [*Hungarian Telecommunication Company*]. Access to the central databases of the SAO is made possible through this network and this is also the system that ensures the Internet connection of the Soroksári út network.

In the past year, again through centralised public procurement procedure, we purchased 220 desktop PC's. Based on the demand

received from the Directorates and in line with the increase in staff, the SAO implemented the installation of 90 workstations, of which 45 are new, and this is aimed at ensuring the operational conditions for staff development to take place in 2003. The rest of the workstations served for the replacement of the outdated machines. It was possible to acquire 9 more portable notebooks, which can be loaned for definite periods in connection with fulfilling certain concrete tasks, with study tours made abroad and with delivering lectures.

The SAO purchased, again through centralised public procurement procedures, 4 new pieces of server equipment in order to attend, at an appropriate level, to the dynamically increasing computer services and on the new developments, developing thereby the capacity of the existing pieces of server equipment too.

In 2002, in the framework of the project started for integrating economic software, new budgetary and financial, as well as personnel, labour and salary accounting systems were introduced.

The telephone networks and exchanges in Lónyay street, Debrecen, Miskolc and Salgótarján were expanded as necessary.

In 2002, the SAO staff members participated in 54 study tours abroad requiring a total of 611 days. The cost of the officials' missions came close to HUF 27 million, which is more or less the same as the amount of utilisation in 2001; this came to 0.5 per cent of the annual appropriation. Six missions related to the performance of actual audit tasks, 8 missions (465 days) were connected to participation in various forms of training abroad. Most of the official trips (24 missions) resulted from the relations of the SAO with international organisations (INTOSAI, EUROSAI, EU, NATO, etc.), 16 missions served bilateral relations with foreign audit offices and were connected to the participation in other events.

On official missions, the President of the SAO travelled abroad 16 times for a total duration of 60 days. Of these trips, 6 missions (27 days) arose from his post as Vice-President of INTOSAI; in that capacity he represented the world organisation at INTOSAI and EUROSAI conferences. The objective of these missions was mostly to deliver lectures as an invited lecturer at various conferences (e.g., modernisation of public finance, combating corruption). The average cost of a Presidential mission was HUF 405.6 thousand, while the average cost per day was HUF 108.2 thousand.

The economical utilisation of the resources was also promoted by the fact that within Europe the President and the staff members of the SAO travelled on tourist class flights and that on shorter trips they used passenger cars.

On their foreign missions the leaders and the staff members of the SAO do not employ interpreters; for the lectures they make at the different conferences they do not take honoraria; in such cases the registration fees and, on some occasions, the travel costs are borne by the foreign party.

In each case, a mission report is made on the trip according to pre-defined contents and form. The mission reports made on the Presidential trips are forwarded to the Speaker of the National Assembly, the Chairman of the Audit Committee and the Minister of Foreign Affairs (and in some cases to the head of the competent line ministry). All the mission reports are available to everybody in the SAO library.

Due to the intensifying international professional relations of the SAO and to its increasing role undertaken in the framework of INTOSAI, the related costs, despite the austerity measures, are expected to increase in the future.

Budapest, 3 March 2003.

Dr. Árpád Kovács
President

ANNEXES

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The number of reports prepared by the State Audit Office in 2002

The year 2002 action plan was made up of a total of 61 topics, the processing of which was already in progress in 2001, but some were continued into 2003 as well. A total of 34 audits were scheduled to be completed in 2002. The scheduled audits were completed but the publication of the SAO report on three audits (those of the Christian Democratic People's Party /KDNP/, the Workers' Party and that of the financial management of hospitals and clinics in state and church ownership) was carried over to 2003.

Requests were submitted to the SAO concerning the performance of three audits during the year. The audits of the soundness of the year 2003 budget subsidy request of Magyar Televízió Rt. and Duna Televízió Rt. were carried out in addition to the scheduled programme (on the basis of resolutions made by Parliament) and, taking into consideration a request submitted by the Prime Minister, the audit of the costs of the reconstruction of the real estate assigned to the Prime Minister as permanent place of residence.

Accordingly, the composition of the 34 audit reports scheduled to be prepared on the audit tasks scheduled for year 2002 was somewhat altered, however, the total number of reports remained unchanged. The number of reports published in 2002 was increased due to the fact that the audit of the financial management of the national minority governments took place in 2001 but the publication of 12 reports was carried over to year 2002. (These tasks were not included in the year 2002 audit plan). Consequently, reports on a total of 46 completed audits were made in 2002.

Features of the reports prepared in 2002

Annex 2

Serial number	Subject and number of report	Division drafting the report	Statutory basis of and reasons for the audit	Objective of the audit	Audited budget amount
Audits started in 2001 and completed in 2002					
1.	Audit of the operation of the Ministry for Environment Protection chapter <i>(comprehensive audit)</i> 0225	2.3. Comprehensive Audit Division	regular auditing obligation prescribed by law	assessment of whether the organisation, management and operation system of the chapter and its personal and tangible resources are properly adjusted to the functional tasks, whether they meet the requirements of Hungary's EU accession; whether in the course of budgetary financial management the requirements of legality and expediency are properly applied and how the chapter had taken into account the findings of our preceding audit;	spending appropriation In 1997: HUF 15.3 billion In 1998: HUF 11.5 billion In 1999: HUF 45.9 billion
2.	Auditing of the operation of the Prime Minister's Office chapter <i>(comprehensive audit)</i> 0216	2.3. Comprehensive Audit Division	regular auditing obligation prescribed by law	assessment of whether the organisation, management and operation system of the chapter and its personal and tangible resources are properly adjusted to the functional tasks, whether the effective and efficient performance of such tasks has been provided for, whether, in the course of the utilisation of the appropriations managed by the chapter in the financial management of the budgetary resources, the requirements of legality and expediency are properly applied, and how the chapter had taken into account the findings of our preceding audit;	spending appropriation In 1997: HUF 10.2 billion In 1998: HUF 18.9 billion In 1999: HUF 13.5 billion In 2000: HUF 35.5 billion In 2001: HUF 67.3 billion
3.	Auditing of the operation of the Ministry of Health chapter <i>(comprehensive audit)</i>	2.3. Comprehensive Audit Division	regular auditing obligation prescribed by law	assessment of whether the organisation, management and operating system, the budget and the personal and tangible resources of the chapter are properly adjusted to the health policy tasks of the state; assessing the expediency and effectiveness of the institutional management tasks of the ministry, the expediency of the financial management of the insti	spending appropriation In 2001: HUF 109.7 billion In 2002: HUF 114.0 billion

Serial number	Subject and number of report	Division drafting the report	Statutory basis of and reasons for the audit	Objective of the audit	Audited budget amount
	0222			tutions, the legality of the regulation and utilisation of the appropriations managed by the chapter along with its expediency and effectiveness;	
4.	Auditing of the operation of the Ministry of the Interior chapter (comprehensive audit) 0215	2.3. Comprehensive Audit Division	regular auditing obligation prescribed by law	assessment of whether the organisation, management and operating system, the budget and the personal and tangible resources of the chapter are properly adjusted to the tasks, assessing the expediency and effectiveness of the activities of the chapter in supervising its institutions; the operation of the financial management system of the Police budgetary title; the application of the requirements of legality, expediency and effectiveness in the course of the utilisation of the appropriations managed by the chapter;	spending appropriation In 2000: HUF 221.3 billion In 2001: HUF 247.8 billion
5.	Auditing of the operation of the Hungarian Academy of Sciences chapter (comprehensive audit) 0223	2.3. Comprehensive Audit Division	regular auditing obligation prescribed by law	assessment of whether the organisation, management and operating system, budget and the personal and tangible resources of the Hungarian Academy of Sciences (MTA) are properly adjusted to the tasks; assessment of the effectiveness of the research policy and functional objectives in the course of the utilisation of the appropriations managed by the chapter;	spending appropriation In 2000: HUF 27.6 billion In 2001: HUF 33.2 billion
6.	Auditing of the utilisation of subsidies aimed to promote employment (other regularity audit) 0226	3.2. Financial Regularity and Performance Auditing Division	other audit carried out on the basis of decision taken by the President of the SAO	to review the ways in which local governments participated in the course of the performance of their employment related tasks as specified in Article 8 of Act No. LXV of 1990 in the organisation of employment for the unemployed, in the formulation of local employment conditions and in the interest reconciliation process concerning employment, ; how the effectiveness and expediency of the utilisation of the various forms of subsidies developed and to what extent the central and decentralised funds of the Labour Market Fund facilitated the implementation of the goals specified in the law;	Year 2001 budgetary funding of a total of HUF 23.5 billion
7.	Comprehensive audit of the financial management of	3.3. Comprehensive Audits Division	regular auditing obligation prescribed by	to assess whether the legality and regularity of financial management is provided for in the category of	the total budgetary expenditure of local governments in year 2001 amounted to

Serial number	Subject and number of report	Division drafting the report	Statutory basis of and reasons for the audit	Objective of the audit	Audited budget amount
	local governments and local minority councils (comprehensive audit) <i>0220</i>		law	priority municipal governments; whether effective local actions were taken to the expedient and effectiveness use of tasks and resources; whether the management of local governments' resources properly served the provision of services for the local communities, whether actions were taken to ensure the preservation and enhancement of assets; whether the regulations and requirements laid out in the public procurements act were met; whether the supervisory and the internal audits of local governments facilitated the regularity and legality of financial management;	HUF 1,700 billion. their own equity amounted to HUF 3,000 billion the year 2000 spending appropriation of the 195 local governments and 81 local minority councils covered by the audit amounted to a total of HUF 265.7 billion
8.	Auditing of the solid waste management tasks of municipal governments (other regularity audit) <i>0221</i>	3.2. Financial Regularity and Performance Auditing Division	other audit carried out on the basis of decision taken by the President of the SAO	to establish whether local governments had completed their waste management tasks specified in the relevant acts and the related government and ministerial decrees; whether they were in possession of the financial means required for the organisation of the public service and its operation and maintenance, as well as for the development of the tangible assets and facilities as required for the performance of the tasks; the percentages of the central budgetary subsidies and funds allocated through tenders and application schemes in the performance of the tasks; whether the funds available for local governments were expediently and effectively applied to enable the waste management tasks of municipalities and the improvements they provided in environmental quality;	spending on accumulation in relation to waste management In 1999: HUF 6 billion In 2000: HUF 4 billion
9.	Auditing of measures aimed to improve the qualify standards of primary education (<i>performance audit</i>)	3.2. Financial Regularity and Performance Auditing Division	other audit carried out on the basis of decision taken by the President of the SAO	to establish, in cooperation with the British Know How Fund - taking over some British performance controlling methodologies - the steps that have been taken in order to improve the conditions for successful functional operation. How this has been promoted by amendments to legislation, centrally taken measures and the available budgetary funding. Have or	the appropriation spent on public education in years 1998 to 2000 amounted to HUF 300-500 billion/year

Serial number	Subject and number of report	Division drafting the report	Statutory basis of and reasons for the audit	Objective of the audit	Audited budget amount
	0219			organisations in charge of the running of schools recognised the possibilities for submitting applications for funding, have they taken measures to develop more rational institutional structures, to improve the management of costs and to evaluate the technical/professional work performed by institutions;	
10.	Ex-post audit of the financial management of the Municipal Government of Budapest <i>(comprehensive audit)</i> 0246	3.3. Comprehensive Audits Division	regular auditing obligation prescribed by law	auditing of whether any improvement had been achieved in the regularity of financial management as a result of measures taken by the local government in the wake of the findings and recommendations originating from earlier audits carried out by the SAO, and whether as a result of the proposed measures the requirements specified in the relevant legal regulations and internal rules had been applied in the course of the performance of tasks of planning, operative financial management and those relating to the accounting documentation system and the reporting obligations; whether the management and controlling processes adjusted in view of the recommendations properly facilitated financial management and task performance;	
11.	Auditing of the operation and financial management of the Hungarian Railways Company (MÁV Rt.) in 1999 and 2000 <i>(comprehensive audit)</i>	2.3. Comprehensive Audit Division	other audit carried out on the basis of decision taken by the President of the SAO	establishment of whether the organisation and operation system of MÁV Rt. was in line with the tasks, whether it ensured their effective and efficient performance, whether it meets the requirements of Hungary's EU accession; how the development of revenues and expenditures, the system of discount fares and the management of the available assets can be evaluated from the aspect of the effectiveness of its financial management; to what extent is the accomplishment of the established objectives promoted by the utilisation of state development and consolidation funds allocated between 1995 and 2001 as well as other external funds, the standards of the service	budgetary subsidy In 1999: HUF 99.8 billion In 2000: HUF 137.9 billion In 2001: HUF 102.4 billion

Serial number	Subject and number of report	Division drafting the report	Statutory basis of and reasons for the audit	Objective of the audit	Audited budget amount
	0224			providing activities and the preparations taken carried out concerning the structural reorganisation of the railways;	
12.	Auditing of the Mária-Valéria bridge investment project (financial and other regularity audit) 0231	2.1. Performance Audit Division	other audit carried out on the basis of decision taken by the President of the SAO	assessment of whether the objectives laid out in the Agreement signed on 16 September 1999 between the Government of the Republic of Hungary and the Government of the Slovak Republic have been accomplished, whether the operations of the organisations and institutions participating in the implementation of the investment project and their cooperation met the provisions of the law the regulations applied by PHARE; whether the provision, availability and utilisation of the funds were in line with the relevant provisions of the law and the regulations on the utilisation of EU subsidies; whether the regulations laid out in the EU Phare procedures were kept;	the budget of the investment project In 1999: HUF 149.5 million In 2000: HUF 228.4 million In 2001: HUF 1001.5 million
13.	Pre-accreditation audit of the Hungarian institution system established for the implementation of the SAPARD Programme and the payment of the aid moneys (financial - regularity) 02	2.2. Financial Audits Division	Audits carried out on request by Government	to assess whether the organisation structures and procedures of the institutions participating in the implementation of the sapard programme are in compliance with the accreditation criteria laid out in the multi-annual financing agreement concluded between the republic of hungary and the commission of the european communities on behalf of the european community; whether the organisation structures and procedures provide for the transparency of the management of the aid funds, the protection of the financial interests of the european union paying special attention to the requirements specified in accounting, payment and internal auditing regulations;	
14.	Auditing of the year 2000 operations of Földhitel és	2.1. Performance Audit Division	other audit carried out on the basis of decision taken by the President	to assess whether the operation and activities of the mortgage bank meet the legal regulations and the special expectations of the state as its owner (e.g.	registered share capital upon foundation HUF 3.0 billion at end-2000 HUF 4.1 billion

Serial number	Subject and number of report	Division drafting the report	Statutory basis of and reasons for the audit	Objective of the audit	Audited budget amount
	Jelzálogbank Rt.(the Mortgage Bank) <i>(comprehensive audit)</i> 0213		of the SAO	provision of mortgage loans, implementation of the housing policy concept) and the internal regulations; whether the regulatory environment properly conveys the requirements of safe and profitable operation and what factors have contributed to the development of the wealth and assets of the specialised credit institution;	balance sheet total In 2000: HUF 20.2 billion
15.	Auditing of the utilisation of the non-normative central budgetary subsidies provided for public foundations and foundations allocated between 1998 and 2001 <i>(other regularity audit)</i> 0228	3.1. Regularity Audits Division	other audit carried out on the basis of decision taken by the President of the SAO	to assess whether the appropriations approved in the central budget for public tasks are in line with the allocated subsidies, whether in the course of the evaluation and approval of (public) foundation subsidies, in the course of the conclusion of contracts, financing and the calling of entities to account for utilisation, and the checking of this, the ministries complied with the state budget act (Áht.) and the government decrees concerning its implementation; whether in the announcement of the application schemes, in the granting and utilisation of subsidies the ministries and the (public) foundations properly informed the public on the public service activities and the public tasks of the state for whose performance contributions allocated from the central budget were used;	central budgetary subsidy In 1998: HUF 13.2 billion In 1999: HUF 14.1 billion In 2000: HUF 20.1 billion In 2001: HUF 21.4 billion
16.	Auditing of the developments implemented in Hungary under the NATO Security Investment Programme) <i>(performance audit)</i>	2.3. Comprehensive Audit Division	other audit carried out on the basis of decision taken by the President of the SAO	to establish the extent to which the Ministry of Defence, the Hungarian Army and the organisations concerned took into account the provisions of the domestic legal regulations in the regulation of the designing, implementing and accounting for projects falling under the NATO Security Investment Programme and how they applied the internal rules established by NATO; to what extent the tasks were integrated into the NATO Security Investment Programme in their organisation structures, military	the amounts spent from the budget of the MoD as domestic coverage of the development projects In 1999: HUF 0.7 billion In 2000: HUF 1.2 billion In 2001: HUF 1.7 billion In 2002: HUF 1.3 billion

Serial number	Subject and number of report	Division drafting the report	Statutory basis of and reasons for the audit	Objective of the audit	Audited budget amount
	0217			functional activities and the regime of financial management; in respect of the operations financed from domestic sources how they aimed to ensure regular, effective and economical performance of the tasks and what internal control elements they had integrated in the processes;	
17.	Auditing of the financial processes of the M3 Motorway investment programme <i>(other regularity audit)</i> 0218	2.1. Performance Audit Division	other audit carried out on the basis of decision taken by the President of the SAO	to assess the provision of funding, availability and funds and their utilisation for the M3 motorway section between Fűzesabony and Polgár implemented under the 15-year speedway network development programme were in compliance with the provisions laid out in law and government resolutions; whether the operation of the organisations and institutions involved in implementation and the regulation of their cooperation is in compliance with the provisions laid out in law and government resolutions; how the controls enforcing the ownership interests of the state were applied in the process of the financing of the investment project;	funds provided under the framework of the central budget from the Roads Fund in years 1996-1998 a total of HUF 12.2 billion in years 1999-2001 a total of HUF 3.7 billion
II. Audits started and completed in 2002					
18.	Auditing of the claiming and accounting for the year 2001 normative state contributions by local governments <i>(other regularity audit)</i> 0230	3.3. Comprehensive Audits Division	annual auditing obligation prescribed by law	to establish whether local governments budgeted and used the normative state subsidies to which they are entitled in accordance with the budget act for 2001; whether they provided for the continuous and accurate keeping of the necessary registries, documents; whether they properly checked the accuracy of the data supplied by their institutions;	The amount of normative state subsidy contribution used in 2001 amounted to a total of HUF 479.2 billion; the amount of the normative state contribution established for the 227 local governments covered by the audit amounted to HUF 6.4 billion.
19.	Auditing of the implementation of the budget of the Republic of Hungary for the	3.3. Comprehensive Audits Division 2.2. Financial Audits Division	annual auditing obligation prescribed by law	to establish whether the submitted Bill contains all of the provisions, in full and correctly, required for the closure of the fiscal year; whether the data and other information describing the performance of the central	the total of the expenditures of the state budget amounted to HUF 8,664 billion

Serial number	Subject and number of report	Division drafting the report	Statutory basis of and reasons for the audit	Objective of the audit	Audited budget amount
	year 2001 (financial and other regularity audit) <i>0232</i>	1.1. Organisation Management and Liaison Division		budget provide a true and valid picture of the year 2001 processes; whether the Government and the organisations involved in the implementation of the budget complied with legislation on the management of the state budget; whether the closing accounts and the underlying registries and documents meet the requirements of regularity and validity;	
20.	Commenting on the year 2003 budget of the Republic of Hungary (other regularity audit) <i>0241</i>	3.3. Comprehensive Audits Division 2.2. Financial Audits Division 1.1. Organisation Management and Liaison Division	annual auditing obligation prescribed by law	to assess whether the revenue and expenditure estimates of the bill on the year 2003 budget are well-founded; whether, in respect of the year 2003 budget figures and the indicative target figures for the period extending between 2004 and 2006, the preparation for Hungary's EU accession was properly taken into account, whether the amendments to the regulation of funding of local governments and the subsidy system planned in the budget bill are well-founded, whether the composition of the budget bill is in line with the provisions contained in the budget act and the government decrees issued with respect to its implementation;	the total planned expenditure of the state budget amounted to HUF 10,686 billion
21.	Auditing of the operation of the Courts chapter (<i>comprehensive audit</i>) <i>0240</i>	2.3. Comprehensive Audit Division	regular auditing obligation prescribed by law	to assess whether the organisation, management and operation system of the chapter, its budget, personal and tangible resources are properly adjusted to the tasks; whether in the course of budgetary management the requirements of legitimacy and expediency are met and how the chapter has utilised the findings of our previous audit;	spending appropriation In 1998: HUF 24.8 billion In 1999: HUF 31.4 billion In 2000: HUF 34.0 billion In 2001: HUF 36.3 billion In 2002: HUF 37.6 billion
22.	Auditing of the operation of the Presidency of the Republic chapter (<i>comprehensive audit</i>)	2.3. Comprehensive Audit Division	regular auditing obligation prescribed by law	to assess whether the organisation, management and operation system of the chapter, its budget, personal and tangible resources are properly adjusted to the tasks; whether the utilisation of the appropriations provided for their regularity and expediency; to what	spending appropriation In 1998: HUF 367.5 million In 1999: HUF 368.0 million In 2000: HUF 499.9 million In 2001: HUF 496.9 million

Serial number	Subject and number of report	Division drafting the report	Statutory basis of and reasons for the audit	Objective of the audit	Audited budget amount
	0227			extent the findings of the previous SAO audit were utilised in its direction and managing activities;	
23.	Auditing of the applications for and the utilisation of the local governmental subsidies granted for specific purposes (other regularity audit) 0234	3.2. Financial Regularity and Performance Auditing Division	annual auditing obligation prescribed by law	to establish whether the subsidies granted from the central budget for a variety of tasks on a normative basis or through application systems were utilised in the way specified in the year 2001 annual budget; whether in the awarding of subsidies and in the utilisation of and accounting for subsidies, local governments complied with the relevant provisions of law; whether state funds were utilised in an efficient and compliant way;	amount of audited subsidies: HUF 73.0 billion. 88.4 % of the original appropriation
24.	Auditing of the activities of county and Budapest duty offices (other regularity audit) 0243	3.2. Financial Regularity and Performance Audit Division	regular auditing obligation prescribed by law	to review and assess the impact of the amendment to the duties act of 1997 and the changes in the rights of the running of the county duty offices had on the operation of the offices and the changes in the amounts of duties collected, how the roles played by revenues from duties changed in the regulation of the funding sources of the local governments concerned; what differences developed between the resources and operating conditions of the various duty offices and how these promoted the effective performance of the tasks of duty offices; what roles the system of interests of duty offices played in the reduction of duties in arrears and in enabling more efficient performance of work;	duty revenues prescribed by duty offices covered by the audit In 1999: HUF 57.9 billion In 2000: HUF 66.4 billion In 2001: HUF 89.0 billion
25.	Auditing of the applications for and utilisation of labelled and targeted subsidies provided for investment projects and reconstruction projects of local	3.2. Financial Regularity and Performance Auditing Division	annual auditing obligation prescribed by law	to assess whether the system of decision making on labelled and targeted subsidies effectively promoted the implementation of the development projects; whether in the course of procurements (investment projects) the provisions of the law on public procurements were complied with; whether the subsidies	32.1 % of the total of HUF 103,074 million earmarked and targeted subsidy appropriation was audited by the SAO. In 16 counties and the capital city, 152 investment projects of 99 local governments were audited

Serial number	Subject and number of report	Division drafting the report	Statutory basis of and reasons for the audit	Objective of the audit	Audited budget amount
	governments in year 2001 <i>(other regularity audit)</i> 0229			were used for the purposes laid out in law;	
26.	Auditing of the year 2001 financial management of Magyar Távirati Iroda Rt. [Hungarian News Agency] <i>(comprehensive audit)</i> 0236	2.3. Comprehensive Audit Division	annual auditing obligation prescribed by law	to assess whether the external and the internal regulation, organisation and operation system MTI Rt. (the Hungarian news agency) were in line with the tasks to be performed, the extent to which these enabled the efficient and effective performance of the tasks; whether the Company managed the resources made available for its operations and the operating and targeted subsidies provided from the central budget for the performance of the public service duties of the Company in compliance with its deed of foundation and other relevant legal regulations, in a legal, expedient and efficient way;	year 2001 net sales revenue: HUF 2030 million profit: HUF 139 million budgetary subsidy: HUF 1,322 million
27.	Auditing of the operation in year 2001 of the State Privatisation and Holding Company (ÁPV Rt.) and its activities relating to the implementation of the central budget <i>(comprehensive audit)</i> 0233	2.3. Comprehensive Audit Division	annual auditing obligation prescribed by law	to assess whether the appropriations, obligations and guarantees relating to the operations of ÁPV Rt. as specified in the year 2001 budget act were accomplished and realised in accordance with the provisions of the law; whether the operating revenues and expenditures developed in accordance with the goals laid out in its business plan were within the framework prescribed by law; whether the requirements of regularity and economical financial management were met by the financial management of the company; whether the findings and recommendations of the previous audit carried out by the SAO had been utilised;	property assigned to ÁPV Rt. amounted at end-2001 to HUF 750.3 billion, its own wealth: HUF 12.3 billion. operating revenues: HUF 4.8 billion, revenues from sale and utilisation of property: HUF 32.2 billion
28.	Auditing of environmental investment projects in the West Trans-Danubian region <i>(performance audit)</i>	2.3. Comprehensive Audit Division	other audit carried out on the basis of decision taken by the President of the SAO	to assess the practical implementation of the environmental concepts relating to the scopes of competencies of certain local governments subsidised by the Austrian Republic along with the utilisation of the funds used for investment projects already completed by subsidised municipalities according to the	the audit covered 13 completed investment projects including those about to be completed and 4 investment projects in preparation

Serial number	Subject and number of report	Division drafting the report	Statutory basis of and reasons for the audit	Objective of the audit	Audited budget amount
	0239			relevant plans as well as those used for ongoing investment projects - granted from the appropriations in the Hungarian budget for purposes of environment protection as well as those won from international aid systems - along with the extent and way to and in which investment projects so implemented a reduction in the loads imposed on the environment by environmental damage. The audit is closely related to the audits carried out by the Audit Office of Austria focusing on subsidies granted for purposes related to the protection of the environment;	
29.	Auditing of budgetary subsidies granted to social organisations and public bodies (financial and other regularity audit) 0237	3.1. Regularity Audits Division	other audit carried out on the basis of decision taken by the President of the SAO	assessment of the utilisation of budgetary subsidies provided for social organisations in accordance with the provisions pertaining to the subsidies system, on the basis of the obligations specified for the State Audit Office in Article 2 (5) of Act No. XXXVIII of 1989 on the State Audit Office and in Article 21 of Act No. CLVI of 1997 on public service organisations. The effectiveness of the existing subsidy system in promoting the work of the various social organisations in the performance of their social public service tasks and whether the organisations selected on the basis of a representative sample used the subsidies received in a proper and expedient way;	central subsidy for non-profit organisations In 1999: HUF 97.9 billion In 2000: HUF 141.5 billion In 2001: HUF 189.2 billion
30.	Auditing of the operation of the National Bank of Hungary (<i>comprehensive audit</i>)	2.1. Performance Audit Division	regular auditing obligation prescribed by law	to assess whether the operation of the National Bank of Hungary meets the requirements of legal compliance, whether the statutes of the NBH, the procedural rules governing its organisation and operation and the rest of its internal regulations are in line with the relevant legal regulations, whether its organisational, management and operation system are adjusted to the tasks, whether the implementation of the resolutions made by the assembly is ensured and to assess the	equity: HUF 10 billion, year 2001 balance sheet total HUF 5,453 billion, profit: HUF 3.6 billion

Serial number	Subject and number of report	Division drafting the report	Statutory basis of and reasons for the audit	Objective of the audit	Audited budget amount
	0238			account keeping activities of the NBH, its compliance with the rules on the conflict of interests, the administration of securities and loan transactions carried out on the basis of state orders, the raising of foreign funds as an agent of state, the management of the debt service and the financial management of the institution;	
31.	Auditing of the monitoring system of international assistance schemes <i>(performance audit)</i> 0247	2.1. Performance Audit Division	other audit carried out on the basis of decision taken by the President of the SAO	to assess whether, in light of the approaching of the date of Hungary's EU accession, a monitoring institutional and information technology system meeting the relevant EU expectations has developed, whether the system meets effective domestic regulations and those introduced by the European Union, whether it enables the reliable monitoring of the utilisation of the various forms of assistance granted to Hungary from the Structural Funds and the Cohesion Funds; whether the utilisation of domestic and EU funds spent on the development and operation of the monitoring system was effective and expedient and how the recommendations of the previous SAO audit were utilised in the development of the institutional and the information technology system;	
In addition to the originally scheduled audits					
32.	Auditing of the costs of the transformation of the real estate designated by the Government as permanent residence for the Prime Minister, in relation to personal security protection	2.3. Comprehensive Audit Division	Audits carried out by requests made by Government	to assess whether the organisation and implementation of the tasks relating to the protection of the personal security of the Prime Minister are supported by an adequate regulatory background and whether the organisation and implementation of protection extending to the person and permanent place of residence of the Prime Minister have been carried out in a compliant way and at the same time meeting the requirements of expediency, and whether in the de	HUF 50 million limit was available for the protection system to be developed

Serial number	Subject and number of report	Division drafting the report	Statutory basis of and reasons for the audit	Objective of the audit	Audited budget amount
	(other regularity audit) 0235			velopment of the protection of the permanent place of residence supported by technical devices the requirements of expediency and effectiveness were met;	
33.	For the targeted audit of the soundness of the year 2003 budgetary subsidy claim of the Hungarian Television Company (MTV Rt.) (financial and other regularity audit) 0244	2.2. Financial Audits Division	Audits carried out on the basis of resolutions passed by Parliament and other requests	to assess whether the amount of budget subsidy applied for by MTV Rt. for year 2003 (HUF 27-28 billion) was sound and justified;	in its business plan for the year 2003 MTV Rt. planned HUF 41.7 billion revenue of which HUF 36.5 billion budget support the total planned expenditure in year 2003: HUF 32.3 billion
34.	For the targeted audit of the soundness of the year 2003 budgetary subsidy claim of DUNA Televízió Részvénytársaság (financial and other regularity audit) 0245	2.2. Financial Audits Division	Audits carried out on the basis of resolutions passed by Parliament and other requests	to assess whether the amount of budget subsidy applied for by Duna TV. for year 2003 (HUF 2 billion) was sound and justified;	in its business plan for the year 2003 DTV planned HUF 8.5 billion revenue of which HUF 7.6 billion budget subsidy
Carried over from year 2001, not included in the year 2002 audit plan					
35.	Audit of the financial/economic activities of	3.2. Financial Regularity and Per	other audit carried out on the basis of decision	to assess how the conditions of the operation of the national minority councils developed over the period	the total expenditure of the local governments covered by the audit

Serial number	Subject and number of report	Division drafting the report	Statutory basis of and reasons for the audit	Objective of the audit	Audited budget amount
	the national minority governments (other regularity audit) <i>0201</i>	formance Auditing Division	taken by the President of the SAO	under review; to what extent the organisation and regularity of financial management meet the statutory requirements and the specific features of council operations; whether the legality and compliance of financial management and the utilisation of funds is ensured, along with compliance with the provisions of the accounting act and the relevant government decrees;	In 1999: HUF 533.7 million In 2000: HUF 653.4 million
36.	Audit of the financial/economic activities of the Bulgarian Nationwide Council (other regularity audit) <i>0202</i>	3.2. Financial Regularity and Performance Auditing Division	other audit carried out on the basis of decision taken by the President of the SAO	to assess the changes of the conditions of the operation of the nationwide minority council during the period under review; to what extent the organisation and regularity of financial management meets statutory requirements and the special features of the operation of councils; whether the legality and regularity of financial management and the utilisation of funds is provided for, along with compliance with the provisions of the accounting act and the relevant government decrees;	spending appropriation In 1999: HUF 20.0 million In 2000: HUF 31.9 million In 2001: HUF 36.5 million
37.	Audit of the financial/economic activities of the Greek Nationwide Council (other regularity audit) <i>0203</i>	3.2. Financial Regularity and Performance Auditing Division	other audit carried out on the basis of decision taken by the President of the SAO	to assess the changes of the conditions of the operation of the nationwide minority council during the period under review; to what extent the organisation and the regularity of financial management meets statutory requirements and the special features of the operation of councils; whether the legality and regularity of financial management and the utilisation of funds is provided for, along with compliance with the provisions of the accounting act and the relevant government decrees;	spending appropriation In 1999: HUF 26.3 million In 2000: HUF 29.2 million In 2001: HUF 31.0 million
38.	Audit of the financial/economic activities of the Croatian Nationwide Council (other regularity audit)	3.2. Financial Regularity and Performance Auditing Division	other audit carried out on the basis of decision taken by the President of the SAO	to assess the changes of the conditions of the operation of the nationwide minority council during the period under review; to what extent the organisation and regularity of financial management meets statutory requirements and the special features of the operation of councils; whether the legality and regu	spending appropriation In 1999: HUF 59.6 million In 2000: HUF 66.1 million In 2001: HUF 127.6 million

Serial number	Subject and number of report	Division drafting the report	Statutory basis of and reasons for the audit	Objective of the audit	Audited budget amount
	0204			regularity of financial management and the utilisation of funds is provided for, along with compliance with the provisions of the accounting act and the relevant government decrees;	
39.	Audit of the financial/economic activities of the Nationwide Council of Germans in Hungary (other regularity audit) 0205	3.2. Financial Regularity and Performance Auditing Division	other audit carried out on the basis of decision taken by the President of the SAO	to assess the changes of the conditions of the operation of the nationwide minority council during the period under review; to what extent the organisation and regularity of financial management meets statutory requirements and the special features of the operation of councils; whether the legality and regularity of financial management and the utilisation of funds is provided for, along with compliance with the provisions of the accounting act and the relevant government decrees;	spending appropriation In 1999: HUF 119.5 million In 2000: HUF 118.1 million In 2001: HUF 145.3 million
40.	Audit of the financial/economic activities of the Armenian Nationwide Council (other regularity audit) 0206	3.2. Financial Regularity and Performance Auditing Division	other audit carried out on the basis of decision taken by the President of the SAO	to assess the changes of the conditions of the operation of the nationwide minority council during the period under review; to what extent the organisation and regularity of financial management meets statutory requirements and the special features of the operation of councils; whether the legality and regularity of financial management and the utilisation of funds is provided for, along with compliance with the provisions of the accounting act and the relevant government decrees;	spending appropriation In 1999: HUF 20.7 million In 2000: HUF 27.2 million
41.	Audit of the financial/economic activities of the Nationwide Council of Romanians in Hungary (other regularity audit)	3.2. Financial Regularity and Performance Auditing Division	other audit carried out on the basis of decision taken by the President of the SAO	to assess the changes of the conditions of the operation of the nationwide minority council during the period under review; to what extent the organisation and regularity of financial management meets statutory requirements and the special features of the operation of councils; whether the legality and regularity of financial management and the utilisation of funds is provided for, along with compliance with the provisions of the accounting act and the relevant	spending appropriation In 2000: HUF 30.4 million In 2001: HUF 40.4 million

Serial number	Subject and number of report	Division drafting the report	Statutory basis of and reasons for the audit	Objective of the audit	Audited budget amount
	0207			government decrees;	
42.	Audit of the financial/economic activities of the Ruthenian Nationwide Council (other regularity audit) 0208	3.2. Financial Regularity and Performance Auditing Division	other audit carried out on the basis of decision taken by the President of the SAO	to assess the changes of the conditions of the operation of the nationwide minority council during the period under review; to what extent the organisation and regularity of financial management meets statutory requirements and the special features of the operation of councils; whether the legality and regularity of financial management and the utilisation of funds is provided for, along with compliance with the provisions of the accounting act and the relevant government decrees;	revenue estimate In 1999: HUF 14.3 million In 2000: HUF 14.0 million In 2001: HUF 16.0 million
43.	Audit of the financial/economic activities of the Serb Nationwide Council (other regularity audit) 0209	3.2. Financial Regularity and Performance Auditing Division	other audit carried out on the basis of decision taken by the President of the SAO	to assess the changes of the conditions of the operation of the nationwide minority council during the period under review; to what extent the organisation and regularity of financial management meets statutory requirements and the special features of the operation of council; whether the legality and regularity of financial management and the utilisation of funds is provided for, along with compliance with the provisions of the accounting act and the relevant government decrees;	spending appropriation In 1999: HUF 26.0 million In 2000: HUF 39.9 million In 2001: HUF 40.0 million
44.	Audit of the financial/economic activities of the Slovak Nationwide Council (other regularity audit)	3.2. Financial Regularity and Performance Auditing Division	other audit carried out on the basis of decision taken by the President of the SAO	to assess the changes of the conditions of the operation of the nationwide minority council during the period under review; to what extent the organisation and regularity of financial management meets statutory requirements and the special features of the operation of councils; whether the legality and regularity of financial management and the utilisation of funds is provided for, along with compliance with the provisions of the accounting act and the relevant government decrees;	spending appropriation In 1999: HUF 108.3 million In 2000: HUF 116.2 million In 2001: HUF 180.0 million

Serial number	Subject and number of report	Division drafting the report	Statutory basis of and reasons for the audit	Objective of the audit	Audited budget amount
	<i>0210</i>				
45.	Audit of the financial/economic activities of the Slovenian Nationwide Council (other regularity audit) <i>0211</i>	3.2. Financial Regularity and Performance Auditing Division	other audit carried out on the basis of decision taken by the President of the SAO	to assess the changes of the conditions of the operation of the nationwide minority council during the period under review; to what extent the organisation and regularity of financial management meets statutory requirements and the special features of the operation of council; whether the legality and regularity of financial management and the utilisation of funds is provided for, along with compliance with the provisions of the accounting act and the relevant government decrees;	spending appropriation In 1999: HUF 22.5 million In 2000: HUF 24.6 million In 2001: HUF 27.4 million
46.	Audit of the financial/economic activities of the Ukrainian Nationwide Council (other regularity audit) <i>0212</i>	3.2. Financial Regularity and Performance Auditing Division	other audit carried out on the basis of decision taken by the President of the SAO	to assess the changes of the conditions of the operation of the nationwide minority council during the period under review; to what extent the organisation and regularity of financial management meets statutory requirements and the special features of the operation of council; whether the legality and regularity of financial management and the utilisation of funds is provided for, along with compliance with the provisions of the accounting act and the relevant government decrees;	spending appropriation In 1999: HUF 13.0 million In 2000: HUF 18.2 million In 2001: HUF 20.3 million

SAO recommendations made in 2001 and 2002 concerning major amendments to legislation, not yet implemented

A)

Recommendations included in the publication entitled 'Statement of the tasks and deadlines specified by the Parliament' based on the report of the SAO for the year 2001, for the implementation of which no action has been taken as yet

Report on the auditing of forest management (0030)

The Government should initiate an amendment to the law in order to ensure that investment projects implemented with state funds on treasury property become treasury assets, and not assets of business entities. The Government should take steps concerning the alteration of the accounting of state subsidies relating to forests, resolving the problems of ownership originating from the current accounting of plantations of forests.

Report on the audit of the year 2000 budget of the Republic of Hungary (0126)

The Government should accelerate work on the adoption of the act on state accounting.

Report on the implementation of the year 2000 budget of the social security funds (0127)

The Government should review the substantive questions of the budgets of the funds of the social security system and, in relation to this, the relationship between the regulation of the public finance act and the A.T.

Reports on the audits of the legality of the financial management of political parties

The Government should initiate the resolution of the contradiction of the accounting registry and reporting systems of political parties - also taking into account the findings of earlier audits of parties - that also exists between the Act No. XXXIII of 1989 on the operation and financial management of parties, as amended, and the new accounting act in effect since 1 January 2001.

Report on the auditing of the levying of taxes by municipal governments (0121)

The Minister of the Interior and the Minister of Finance should initiate a comprehensive review of the scopes of duties and competences and the financing system as part of the review of the review of the act on local governments, to ensure a clearer and accountable defi

dition of the obligation of financing and guarantees relating to mandatory tasks.

B)

Recommendations based on the audits carried out by the SAO in year 2002

Report on the audit of the year 2001 financial management of Magyar Távirati Iroda Rt. [Hungarian News Agency] (0236)

The Government should initiate amendments to the act on the national news agency (Nht.) and parliamentary resolution No. 70/1997. (VII. 15.) OGY concerning the establishment of MTI Rt. (the deeds of foundation of MTI Rt.) in order to clarify and regulate the proprietary rights, procedural rules, decision-making processes and the subsidies required for the performance of public tasks.

The Government should initiate the adoption of a separate act as specified in Article 2 (1) h) of the act on the national news agency (concerning the provision of information during the periods of a general election).

SAO reports on the agenda of parliamentary committees in 2002

Serial number	SAO Parl. number of the report		Title of report	Committee debating the report	Date of debate	Committee and plenary decisions and agreements
1.	0214	J/8.	Report on activities of the SAO in 2001	Audit Office Economic Local governmental	17 Sept 18 Sept 23 Sept	(Proposal of the Audit Office Committee.: H/911); 69/2002.(4 Oct) Resolution by the Parliament The Parliament has approved the report of the SAO and agreed with the strategic objectives, the development of auditing practice, and the improvement of international relations, and asked the SAO to audit the issuing of banknotes and coins in 2003
2.	0221		Report on the audit of the performance of the tasks of local governments in the area of solid waste management	Economic	25 Sept	The report was debated in relation to the suitability for the general debate on the draft of the parliamentary resolution on the National Waste Management Plan (H/860). The government submission took into account the experience of the SAO.
3.	0222		Report on the audit of the operation of the chapter of the Ministry of Health	Health	11 Sept	-
4.	0226		Report on the audit of the utilisation of subsidies to promote employment	Employment and labour Economic	8 Oct 20 Nov	- -
5.	0228		Report on the audit of the utilisation of the non-normative subsidies provided for public foundations and foundations in the period 1998 - 2001	Social organisations Social and family affairs controlling sub-committee	28 Oct 18 Dec	- -

Serial number	SAO Parl. number of the report		Title of report	Committee debating the report	Date of debate	Committee and plenary decisions and agreements
6.	0229		Report on the claims on and utilisation of the labelled and targeted subsidies provided for the investments and reconstructions of local governments in 2001	Economic	20 Nov	Establishment of an ad hoc working group for the review of the operating disorders of the label/target system, for the preparation of an amendment to the law, related to a debate on the SAO report.
7.	0232	T/762/1	Report on the implementation of the year 2001 budget of the Republic of Hungary*	22 committees	11 Sept- 16 Sept	Audit Office committee: T/762/33 (1-9), Budget and financial committee: T/762/ voting for the related proposed amendment concerning the repayment and additional subsidy requirements of local governments based on the SAO recommendation
8.	0236	J/17/1	Report on the audit of the financial management of the Magyar Távirati Iroda Rt.[Hungarian News Agency] in 2001 *	Audit Office Cultural and press Budgetary and financial	23 Sept 23 Sept 19 Sept	Through the approval of the proposed parliamentary resolution of the Cultural and press committee in relation to the 2001 MTI report, approval of the modified balance sheet and profit and loss statement, decision on review of legal regulation. (H/975; 68/2002. (X.2.) Parliamentary Resolution)
9.	0238		Report on the audit of the National Bank of Hungary	Economic Budgetary and financial	7 Oct. 14 Nov	-
10.	0241	T/1220/1	Comments on the draft act on the budget of the Republic of Hungary for 2003	23 committees	11 Nov-14 Nov	Approval of modifying proposals of Audit Office committee for clarification of public finance act and the clarification of the regulation of the auditing system. (T/1220/782)
11.			Report on the pre-accreditation audit of the Hungarian institution system established for the implementation of the SAPARD programme and the payments of the subsidies **	Economic	6 Nov	-

Serial number	SAO Parl. number of the report	Title of report	Committee debating the report	Date of debate	Committee and plenary decisions and agreements
12.		Report on the pre-accreditation audit of the Hungarian institution system established for the implementation of the SAPARD programme and the payments of the subsidies in the SAPARD office **	Economic	6 Nov	-

* The committees debated the reports of the MTI in years 1997 to 2001 together with the annual reports of the SAO. Owing to the change of government they debated them again and formulated new committee viewpoints in relation to the MTI reports in the years 1997 to 2000. The SAO reports No. 9829; 9924; 0029; 0124 were thus included in the agendas of the committees.

** Report issued by the Director General of the SAO.

Responses to the recommendations formulated in the year 2002 audit reports of the State Audit Office for the Government and the heads of the chapters

Recommendations to the Government

Report on the audit of the financial and economic activities of nationwide minority councils (0201)	
Recommendation:	The Government should provide for the coordination of the provisions of the statutes governing the financial management of nationwide minority councils (Act on the rights of national and ethnic minorities, government decrees on the financial management of nationwide minority councils and social organisations and those on the system of the operation of public finance).
Response:	<i>The review of the Act on the rights of minority councils has been started. According to the position expressed by the meeting of the political state secretaries on 17 February 2003 the complex legal regulation on minorities needs to be reviewed.</i>
Recommendation:	The Government should initiate the extension of legality supervision to nationwide minority councils.
Response:	<i>The recommendation will be utilised within the review of the complex legal regulation on minorities.</i>
Recommendation:	The Government should initiate amendments to the Act on the rights of national and ethnic minorities in order to establish the principles of subsidising to be taken into account in the provision of contributions to the operation of nationwide minority councils as well as to establish the concrete system of requisites and criteria for the establishment, maintenance and operation of their institutions and to create the legal guarantees where they meet the relevant requirements.
Response:	<i>The recommendation will be utilised within the review of the complex legal regulation on minorities.</i>
Recommendation:	The Government should propose to the Ministry of Finance to develop a single set of rules to be applied on a mandatory basis concerning the financial management and accounting of nationwide minority councils, taking the characteristics of their operations into account.
Response:	<i>The recommendation will be utilised within the review of the complex legal regulation on minorities. The review of Government Decree No. 15/1999 is in progress, taking the relevant recommendations of the SAO into account.</i>
Report on the audit of the operation of the Ministry of the Interior chapter (0215)	
Recommendation:	The Government should require the presentation of the budgetary relationships with respect to each proposed piece of legislation and should give an account of the review of the requisites of implementation as prescribed in Act XI of 1987 as amended.
Response:	<i>The Government lays special emphasis on the presentation of the budgetary relationships in the course of the preparation of pieces of legislation.</i>
Recommendation:	The Government should provide <ul style="list-style-type: none"> – for the regulation of the security requirements of IT systems applied in public administration system in order to ensure the protection of information in public administration; – for the efficient governmental coordination of development of settlements; – for the establishment of the headcount limits of the budgetary organisations governed by Act No. XXXIII of 1992 on the legal status of civil servants and Act No. XLIII Act of

<i>Response:</i>	1996 on the service relationship of professional personnel of armed organisations and should ask other ministers concerned to align the number of staff employed with the headcount specified in the budget, to apply the budgetary target figures corresponding to the headcounts approved in the staffing table. <i>The information provided for the SAO did not cover the utilisation of the recommendation.</i>
Recommendation:	The Government should take the necessary action to prompt the Ministry of Finance and other ministries concerned to review the rules on supervisory budgetary auditing and the internal auditing functions (Government Decree No. 15/1999. (II. 5.) Korm.) to ensure the following <ul style="list-style-type: none"> - enforcement of the middle managing role of organisations of nationwide competency - with extensive territorial and local networks - under supervision of the chapter, in the area of budgetary auditing, and - the provisions concerning supervisory comprehensive audit should provide clear and definite guidance to implementation, with particular emphasis on the auditing of budgetary organisations operating under functional supervision of more than one ministry.
<i>Response:</i>	<i>The review of the rules on supervisory budgetary auditing and those on internal audit has been launched. The SAO recommendations are applied in the course of the review of the government decree.</i>
Report on the audit of the operation of the Prime Minister's Office chapter (0216)	
Recommendation:	The Government should examine the possibility of ensuring the harmonisation of tasks and resources in accordance with the government's intent in respect of the integrated vacation system.
<i>Response:</i>	<i>An Action Plan has been drawn up with respect to the findings of the Report..</i>
Report on the audit of the investment projects implemented in Hungary under the NATO Security Investment Programme (NSIP) (0217)	
Recommendation:	The Government should provide for the selection and qualification of domestic business organisations, for the adoption of government decrees on the procedural regime of tendering and the proper implementation of the tasks, in order to enable a clear definition of accountable liability.
<i>Response:</i>	<i>In view of the SAO recommendations the Government regulated the evaluation procedure pertaining to the Hungarian organisations and institutions intending to participate in the tenders to be organised under the NSIP in Government in Decree No. 164/2002. (VIII. 2.) Korm. This procedure is applied in assessing technical and economic suitability.</i>
Report on the audit of the financial processes of the M3 Motorway investment project (0218)	
Recommendation:	The Government should adopt the two government decrees specified in Article 20 of Act No. XX of 2001 on MFB Rt. which are indispensable for MFB Rt. to conduct its operations in accordance with the provisions laid out in the relevant Act.
<i>Response:</i>	<i>One of the two authorisations specified in the Act has been repealed. The proposal concerning the government decree on the rules on the procedure of calling of state guarantees and the settlements between the Hungarian State Treasury and MFB Rt. is expected to be submitted in the first half of 2003.</i>
Recommendation:	The Government should regulate - taking into account the government decree in force determining the scope of duties and competence of the minister of transport and water management - the representation, on the merits, of the proprietary rights of the state and enforce this in the new organisation system in charge of the implementation of the na

	tional road network development programme.
<i>Response:</i>	<i>The information provided did not cover the utilisation of the recommendation.</i>
Recommendation:	The Government should realise an auditing system for the implementation of the whole of the speedway network development programme.
<i>Response:</i>	<i>The information provided for the SAO did not cover the utilisation of the recommendation.</i>
Report on the comprehensive audit of the financial management of local governments and local minority councils (0220)	
Recommendation:	The Government should initiate an amendment to the act on public finance so that in local minority councils the counter-signature of the assumptions of commitments and of remittances should be part of the exclusive competency of the notary of the local government of the settlement or the person commissioned by the notary.
<i>Response:</i>	<i>There are two concepts for resolving the problem. The first one is the complete withdrawal of the counter-signature authorisation of members of local minority councils. The second solution is more acceptable for minorities: this contains only a restriction according to which a minority council may confer a counter-signature right to its own member only if that member has the necessary qualifications.</i>
Recommendation:	The government should initiate the establishment of the contents and procedural rules of the internal auditing of local governments and their budgetary organisations, by legislation; the government should make a proposal on the basis of the review of the system of local governmental auditing, concerning the encouraging and assisting of the operation of 'audit associations' at budgetary organisations of local governments of small municipalities, from central budgetary funding.
<i>Response:</i>	<i>In the budgetary organisations of local governments of small municipalities the year 2003 central budget contains an appropriation of HUF 100 million to be used for the encouragement of audit associations, under the title 'Assistance for internal audit associations'.</i>
Report on the audit of the operation of the Ministry of Health chapter (0222)	
Recommendation:	The Government should have the resource requirements of the 'For a Health Nation' Public Health Programme calculated and then should have the Programme submitted to Parliament.
<i>Response:</i>	<i>The Government has submitted to Parliament the proposal concerning the 'Johan Béla' National Programme of the Decade of Health.</i>
Recommendation:	The Government should take steps concerning the elaboration of the National Health Improvement Programme and its submission to Parliament (Article 147(1) of the Health Act).
<i>Response:</i>	<i>The regulations have been reviewed and coordination between ministries is underway.</i>
Report on the audit of the operation of the Hungarian Academy of Sciences chapter (0223)	
Recommendation:	The Government should take steps to ensure that the President of the Hungarian Academy of Sciences fully discharge his reporting obligation as specified in Article 3 (3) of Act No. XL of 1994 on the Hungarian Academy of Sciences.
<i>Response:</i>	<i>At the Government session on 13 December 2002 the President of the Academy reported on the operations of the Academy in year 2001.</i>
Recommendation:	The Government should order the application of the specific financial management regulations elaborated by the Academy [MTA] and coordinated with the Ministry of Finance, on the basis of the provisions comprised in Government Resolution No. 2064/2000. (III. 29.) Korm.

<i>Response:</i>	<i>In its Resolution No. 2384/2002. (XII. 20.) Korm. the Government decided - in accordance with the provisions contained in Government Resolution No. 2064/2000. (III. 29.) Korm. - concerning the application of the various forms of task financing as well as the regulation of the system of basic benefits. In accordance with the year 2004 budget it should be formulated in such a way as will provide the background for the operation of research institutions in the long run.</i>
Report on the operation and financial management of MÁV Rt. in 1999 and 2000 (0224)	
<i>Recommendation:</i>	The Government should review and – also in view of the requirements of Hungary's EU accession - carry out a comprehensive evaluation of the progress made so far in the reform of the railways, paying particular attention to the institutional, service providing and financing systems and, by taking the necessary steps, it should provide for the consistent completion of the reform.
<i>Response:</i>	<i>The comprehensive assessment of the railways reform is part of the tasks of Government in 2003. The Ministry of Economic Affairs - in view of the proposals formulated by the SAO - has prepared an action plan the implementation of which was started by the announcement of the programme of „Pályaváltás” (‘Changing Tracks’).</i>
Report on the operation of the Ministry for Environment Protection chapter (0225)	
<i>Recommendation:</i>	The Government should provide for the issuance of the government decree identifying the state obligation (commitment) necessitated in relation to the preservation and protection of natural values, as provided for in Act No. LIII of 1996 on the protection of nature.
<i>Response:</i>	<i>A draft government decree has been developed under the title ‘On the compensation and subsidising of nature conservation’ which is currently subject to coordination negotiations. This item is included in the Government’s work schedule with June deadline.</i>
<i>Recommendation:</i>	The government should initiate a review of the regime of the applications submitted for various types of international financial assistance.
<i>Response:</i>	<i>The information provided for the SAO did not cover the utilisation of the proposal.</i>
Report on the audit of the utilisation of subsidies promoting employment (0226)	
<i>Recommendation:</i>	The Government should establish a single labour information system enabling a broader analysis and examination of the various labour market statuses.
<i>Response:</i>	<i>The recommendation concerning the establishment of the Labour Register System was discussed by the meeting of administrative state secretaries on 24 February 2003. The register is the first step of the development of an information system supporting the operation of all organs of state administration using the TAJ (Social Security Identification Code) number. The system creates an efficient auditing opportunity for authorities and employees. The register will also allow the discharging of data providing obligations relating to international labour movements, after Hungary's EU accession.</i>
<i>Recommendation:</i>	The Government should transform the financing system of employment subsidies whilst maintaining unchanged the employment and social policy objectives, simultaneously with the termination of separated financing of public service employment.
<i>Response:</i>	<i>The information provided for the SAO did not cover the utilisation of the recommendation.</i>
<i>Recommendation:</i>	The Government should review the established proportions of the utilisation of the Employment Fund - aiming to more actively influence the labour market - along with the effectiveness and efficiency perspectives of employment and in the re-definition of the rules on the assistance tool emphasis should be laid on the utilisation of the available means of assistance through an application scheme, on the development of programme-type foundations for assistance and on the aspects of the possibility of evaluation.

<i>Response:</i>	<i>The information provided for the SAO did not cover the utilisation of the recommendation.</i>
Report on the audit of the utilisation of non-normative central budgetary assistance provided between 1998 and 2001 for public foundations and foundations (0228)	
<i>Recommendation:</i>	<p>A.) In order to ensure expedient and compliant utilisation of financial assistance provided from the central budget to (public) foundations:</p> <p>The Government should initiate amendment to the regulation contained in the Act on public finance concerning central budgetary expenditures, as described below:</p> <ul style="list-style-type: none"> – those in charge of the running of non-public institutions performing human services, public service organisations, and priority public service organisations may be granted non-normative financial assistance from the general reserve, the segregated sectoral/functional purpose funds of the chapters and from the budgets of local governments and extra-budgetary state funds, under the rules governing their distribution and utilisation. – Article 24 (4) of the Act on public finances should introduce a mandatory obligation concerning the fixing of the rules of the application schemes relating to chapter-managed appropriations along with the ex-ante disclosure of the opportunities for financial assistance to be provided from the chapter and the ex-post disclosure of the list of the names of the organs that have been granted assistance along with the amounts of such assistance.
<i>Response:</i>	<i>The Government made its decision on the tasks related to the amendment of various acts connected to the utilisation of public moneys, the publicity of the utilisation of public assets, the improvement of its transparency and the enhancement of its controlling and auditing, in Government Resolution No. 2396/2002. (XII, 27.). Furthermore, the review of the possibilities to amend the provisions laid out in Article 24 (4) of the Act on public finances (the rules on the schemes of applications concerning chapter-managed appropriations) in accordance with the recommendation is also in progress.</i>
<i>Recommendation:</i>	The Government should amend Chapter VIII of Government Decree No. 217/1998. (XII. 30.) Korm. on the regime of the operation of the public finance system in order to extend the scope of the provisions laid out in Articles 81 to 93 to all chapter-managed appropriations, instead of being restricted to applications covered by the coordination system.
<i>Response:</i>	<i>The Government Decree will be amended in connection with the next budget act.</i>
<i>Recommendation:</i>	The Government should amend Article 20 (4) of Government Decree No. 224/2000. (XII. 19.) Korm. on the special features of the reporting and book keeping characteristics of ‘certain other organisations’ as specified in the Accounting Act in order to ensure that public service and priority public service organisations be obliged to deposit their reports with the county courts keeping their registries.
<i>Response:</i>	<i>The Government made its decision on the tasks relating to the utilisation of public moneys, the publicity of the utilisation of public assets, the improvement of its transparency and the enhancement of its controlling and auditing, in Government Resolution No. 2396/2002. (XII, 27.).</i>
<i>Recommendation:</i>	The Government should take the necessary steps to ensure that in the annual budget bills the amounts of financial assistance appropriated for the performance of the state public duties to be carried out by each of the public foundations established by Parliament and the government along with their operating costs, is identified directly and individually.
<i>Response:</i>	<i>The Government made its decision on the tasks relating to the utilisation of public moneys, the publicity of the utilisation of public assets, the improvement of its transparency and the enhancement of its controlling and auditing, in Government Resolution No. 2396/2002. (XII, 27.).</i>

Recommendation:	The Government should take the necessary steps to ensure that the heads of the organs carrying out the task of supervising the chapters, account in the framework of the annual bills on the closing of accounts for their non-normative financial assistance provided for non-state institutions and for public benefit and priority public benefit organisations according to a single set of criteria, in a breakdown by public benefit activity specified in Article 26 c) of the Act on public benefit organisations.
Response:	<i>The single system of reporting on non-normative financial assistance was introduced already in the year 2002 closing of accounts.</i>
Recommendation:	The Government should take the necessary steps to ensure that ministries provide individual financial assistance only in exceptionally justified cases, within the limits and under conditions specified in the regulations of the chapter-managed appropriations.
Response:	<i>The information provided for the SAO did not cover the utilisation of the recommendations.</i>
Recommendation:	The Government should examine which of the subsidies labelled directly by name for (public) foundations in the annual budget act could in future be rationally managed according to the rules of task financing, and should ensure that these are designated following the adoption of the annual central budget.
Response:	<i>The information provided for the SAO did not cover the utilisation of the recommendation.</i>
Recommendation:	B.) In respect of the founder's actions of public foundations established by the Government: The Government should review the actual performance of the public duties of the state specified in the deeds of foundations of public foundations already operating, and in view of such tasks the Government should specify the range of state public duties in the performance of which it is possible and suitable to involve public foundations already operating. Funds from the central budget should be provided for the establishment of new public foundations only if the given public task of the state cannot be carried out by any one of the already existing public foundations.
Response:	<i>Government Resolution No. 2396/2002. (XII. 27.) has specified 31 August 2003 as the deadline for the review of the actual performance of public tasks, the tasks of public foundations and their funding sources under responsibility of the Minister heading the Prime Minister's Office and the Minister of Finance.</i>
Recommendation:	The Government should modify the rules in the deeds of foundations pertaining to the exercising of the right of representation - taking into account the proposals of the boards of trustees of public foundations as well - in due observance of the provisions laid out in Article 74/C. (4) of the Civil Code that has been in effect since 1 January 2002.
Response:	<i>The information provided for the SAO did not cover the utilisation of the recommendation.</i>
Recommendation:	The Government should modify the regulations of the deeds of foundations of public foundations concerning the utilisation of assets providing that a board of trustees must conclude contracts with all recipients stating the objective of the financial assistance, the deadline and contents of the accounts for the utilisation of the financial assistance, the original documents to be attached to such accounts, the conditions for the passing on of the financial assistance and - in these cases - the obligations to conclude contracts with the recipients, the sanctions applicable in the case of breach of contract and the authorisations of the public foundation to audit concerning the utilisation of the financial assistance.

<i>Response:</i>	<i>The contracts on financial assistance stipulate that the recipient has to state in the original document the fact of having given accounts for the utilisation of the amounts of the financial assistance.</i>
Report on the audit of the implementation of the year 2001 budget of the Republic of Hungary (0232)	
<i>Recommendation:</i>	The Government should accelerate work on the elaboration and adoption of the act on state accounting, including <ul style="list-style-type: none"> – a review and regulation of the structure of the bill on the closing accounts and the methods of its preparation in order to ensure accountability, transparency and auditability; – elaboration - on the basis of the authorisation conferred on Government by Article 124 (2) j) of the act on public finance - of the detailed rules of the registration of the assets of the sub-systems of public finance. A register should be developed enabling the monitoring and presentation in natural units of measurements, in a valid and authentic way, of the portfolio and changes of the asset elements.
<i>Response:</i>	<i>The annual amendments to the Government Decree on the specific features of the obligation of the organisations of public finance in respect of reporting and bookkeeping keep up with the changes of the regulations on financial management. The changes in valuation methods have enabled the establishment of the portfolio of assets on the basis of the principle of the validity of the balance sheet. Preparatory operations pertaining to the act on state accounting have been launched.</i>
<i>Recommendation:</i>	In making decisions concerning re-allocations from funds in the general reserve of the central budget, the government should pay special attention to the functional and numerical soundness of the applications for financial assistance, and their fitting in with the regime of titles of the effective budget act.
<i>Response:</i>	<i>The information provided for the SAO did not cover the utilisation of the recommendation.</i>
<i>Recommendation:</i>	The government should provide for the resolution of the conflict between the provision contained in Article 1 (8) of Act No. XXIII of 1992 on the legal status of civil servants - as amended - and the provision contained in Article 3 (7) of Government Decree No. 15/1999. (II. 5.) Korm.
<i>Response:</i>	<i>The information provided for the SAO did not cover the utilisation of the recommendation.</i>
<i>Recommendation:</i>	The Government should review the effective regulation on the annual notification of the insured parties as specified in Article 47 (4) of the act on social security contributions and its suitability for the establishment of the pension benefits to be provided for recipients.
<i>Response:</i>	<i>There is no need to re-write the act on social security contributions. Reconciliation of the data provided by employers and those provided by the National Pension Insurance Directorate concerning pension contributions is regulated in detail by the relevant statutes and regulations.</i>
<i>Recommendation:</i>	The Government should make a final decision on the accommodation of the Budapest administrative organs of the social security system along with the specification of the funding sources.
<i>Response:</i>	<i>The information provided for the SAO did not cover the utilisation of the recommendation.</i>
<i>Recommendation:</i>	The Government should specify the principles and objective of equitability that may be exercised in respect of the cash and in kind benefits to be provided by the health insurance system, without violating the principle of insurance and the possibilities of the Na

	tional Health Insurance Fund in respect of decision-making in view of circumstances it considers relevant.
<i>Response:</i>	<i>The information provided for the SAO did not cover the utilisation of the recommendation.</i>
Recommendation:	The Government should establish the contents of the inventory to be attached to the closing accounts to show the position of the portfolio of assets of the organisation concerned as specified in Article 78 (2) of the act on local governments, in line with the content definition of the statement of assets as referred to in Article 116 (8). of the act on public finance.
<i>Response:</i>	<i>The amendment to the act on local governments by Act No. 1 of 2003 has established correspondence to the act on public finance. The preparation of the legal regulation concerning the content and relationships of statements of assets is in progress.</i>
Recommendation:	The government should establish, in a decree as prescribed in Article 124 (2) b) of the Act on public finance, the detailed rules on the balance sheets referred to in Article 116 of the Act on public finance.
<i>Response:</i>	<i>The information provided for the SAO did not cover the utilisation of the recommendation.</i>
Report on the audit of the year 2001 operation of the State Privatisation and Holding Company and its activities relating to the implementation of the central budget (0233)	
Recommendation:	The government should initiate the deletion by law of the legal title of the State Privatisation and Holding Company (ÁPV Rt.) referred to as ‘steps supporting the asset management and economic policy activities of the state and payments relating to the termination of crises’ in relation to the privatisation reserve limit outside the privatisation and asset utilisation operations of ÁPV Rt.
<i>Response:</i>	<i>In accordance with the proposal the year Article 5 (4) of the 2003 budget act deleted the above legal title.</i>
Report on the audit of the application for and utilisation of financial assistance to local governments for specific purposes (0234)	
Recommendation:	The Government should amend the regulation of the establishment of the supplementary family allowance, to ensure that it is not less advantageous for students conducting studies in higher education(of persons of an age eligible for the allowance) than for those studying in secondary school.
<i>Response:</i>	<i>The information provided for the SAO did not cover the utilisation of the recommendation.</i>
Recommendation:	The Government should modernise - by deleting the superfluous criteria concerning targeted utilisation - Government Decree No. 277/1997. (XII. 22.) Korm. concerning the further training of teachers, specialised examinations to be taken and passed by teachers and the allowances and benefits to be provided for those participating in further training. In relation to this the Government should simplify and clarify the establishment of the indicator in the course of the elaboration of the budget act proposal.
<i>Response:</i>	<i>The possibilities of simplification and clarification of the normative subsidy related to teachers’ further training and specialised examinations are related to the conditions approved in the act.</i>
Recommendation:	The Government should simplify the conditions and criteria for eligibility and payments and should more precisely specify the definition of the term ‘specialist literature’ by amending Articles 4 to 7 of Government Decree No. 20/1997. (II. 13.) Korm. on the implementation of Act No. LXXXIV of 1993.

<i>Response:</i>	<i>The information provided for the SAO did not cover the utilisation of the recommendation.</i>
Report on the audit of the costs of the reconstruction of the real estate designated by the Government as permanent place of residence for the Prime Minister, in respect of the provision of personal protection for the Prime Minister (0235)	
<i>Recommendation:</i>	The government should provide for the coordination of the statutes on the benefits provided for state dignitaries and those on the protection of protected persons, in order to ensure that they provide unambiguous guidance for those involved in implementation as well as for the purposes of accountability.
<i>Response:</i>	<i>The reviewing of the proposed pieces of legislation has been started with the involvement of the Prime Minister's Office and the Ministry of the Interior.</i>
Report on the year 2001 financial management of the Hungarian News Agency (0236)	
<i>Recommendation:</i>	The Government should initiate amendment to the act on the national news agency (MTI Rt.) and the parliamentary resolution No. 70/1997. (VII. 15.) OGY (the deed of foundation of MTI Rt.) on the establishment of the MTI in order to clarify and regulate the shareholders' powers concerning MTI Rt., the relevant procedural systems and decision-making processes along with the necessary subsidies granted to the performance of public service tasks.
<i>Response:</i>	<i>The information provided for the SAO did not cover the utilisation of the recommendation.</i>
<i>Recommendation:</i>	The government should initiate the adoption of a separate act (on the provision of information during election campaign periods) as specified in Article 2 (1) h) of the Act on the national news agency.
<i>Response:</i>	<i>The information provided for the SAO did not cover the utilisation of the recommendation.</i>
<i>Recommendation:</i>	The Government should consider the separation of the costs of the operation of the Shareholders' Advisory Council (TTT) from the subsidies provided for MTI Rt., in the next year's budget proposal.
<i>Response:</i>	<i>The utilisation of the recommendation may take place in the year 2004 budget act.</i>
Report on the audit of the budgetary subsidies provided for social organisations and public bodies (0237)	
<i>Recommendation:</i>	The Government should initiate amendment of the regulations contained in the act on public finance concerning central budgetary expenditures, with a view to the ex-ante disclosure of the available application schemes managed by the chapters and by the ex-post disclosure of the list of the organisations that have been granted financial assistance and the amounts granted.
<i>Response:</i>	<i>The recommendations made by the SAO will be utilised in the re-drafting of the act on public finance.</i>
<i>Recommendation:</i>	The Government should amend Government Decree No. 217/1998. (XII. 30.) in order to ensure the following: <ul style="list-style-type: none"> – the provisions laid out in Articles 81 to 93 of Chapter VIII should cover all appropriations operated to accomplish goals of subsidies; – it should impose an obligation on the group of non-budgetary organs receiving non-normative subsidies provided from the central budget, to conclude written contracts.
<i>Response:</i>	<i>The information provided for the SAO did not cover the utilisation of the recommendation.</i>
<i>Recommendation:</i>	In order to reduce the administration burdens borne by donors and recipients, the gov

tion:	ernment should provide for the establishment of a central registry system that will make it possible for users of subsidies and applicants to submit the prescribed declarations, certificates, deeds of foundation and other documents of set contents to the organisation keeping the register, only in the case of any change in such data.
<i>Response:</i>	<i>The information provided for the SAO did not cover the utilisation of the recommendation.</i>
Recommendation:	The government should amend Article 20 (4) of Government Decree No. 224/2000. (XII. 19.) Korm. on the specific features of the reporting and bookkeeping obligations of certain other organisations as specified in the Accounting Act, imposing an obligation on public benefit organisations and priority public benefit organisations concerning the depositing of their reports at the county courts keeping their registers.
<i>Response:</i>	<i>Neither the courts nor the prosecutors' offices performing the tasks of legality supervision are prepared to receive such reports, owing to the lack of the relevant technical and personal requisites.</i>
Recommendation:	The government should consider the possibility of setting up an information centre for the comprehensive monitoring of the tender and application schemes operated by ministries that will be suitable for the performance of the tasks relating to the operation of tender application schemes for ministries that do not have separate organisation units for the operation of tender and application schemes.
<i>Response:</i>	<i>The review of the possibilities related to the establishment of an information centre has been launched.</i>
Recommendation:	The government should take the necessary steps to ensure that the heads of the organisations carrying out the tasks of the supervision of the chapters account for the utilisation of the non-normative financial assistance provided for social organisations and public bodies in the framework of the annual closing account bills according to a single set of criteria, in a breakdown by public service activities specified in Article 26 c) of the act on public benefit organisations.
<i>Response:</i>	<i>The year 2002 closing accounts act will contain accounts for such funds in accordance with a single set of criteria.</i>
Recommendation:	The government should take the necessary steps to ensure that individual financial assistance without entering the tendering scheme should be granted by the ministries only in exceptionally justified cases, within the limits and under conditions specified with respect to the chapter-managed appropriations.
<i>Response:</i>	<i>Pursuant to the rules on chapter-managed appropriations, the ex-post disclosure of the list of organisations that have been granted financial assistance and the amounts so granted will be regulated by law.</i>
Opinion on the year 2003 budget bill of the Republic of Hungary (0241)	
Recommendation:	The government should take the necessary steps to ensure that the elaboration of the budgetary guidelines is completed by the pre-set deadline, in accordance with the provisions laid out in Article 50 of the act on public finance. Where instead of the budget guidelines the government intends to have some other document –(assessing the status of the economy, identifying the manoeuvring room for the forthcoming years) prepared to facilitate work on the preparation of the budget, the government should provide for the preparation of the necessary amendment(s) to the law.
<i>Response:</i>	<i>The budget guidelines were submitted after the expiry of the deadline. In respect of the guidelines to be submitted for the year 2004, however, the recommendation will be applied.</i>

Recommendation:	The government should provide for the submission by the Minister of Finance the draft of the budget act to the government, by the date specified in Article 51 (2) of the act on public finance.
Response:	<i>In year 2004 the budget proposal will be submitted in time.</i>
Recommendation:	The government should take the necessary steps concerning the complete implementation of government resolution No. 2399/2001. (XII. 29.) Korm. on the amendment to the Government Resolution No. 2064/2000. (III. 29.) Korm. on the direction of the further development of the financial system of public finance and the establishment of the new organisational regime of the treasury system as well as to Government Decree No. 217/1998. (XII. 30.) Korm. on the system of the operation of public finance as well as on further tasks to be carried out.
Response:	<i>The modernisation of the system of the operation of public finance (Ámr.) is in progress. This involves the ongoing review of the system's own revenues which will be stated from 1 January 2004 in a new categorisation in order to limit accumulations originating from settlements between institutions. The further development of the planning (budgeting) methodology has also been launched involving a revision in accordance with the system of tasks. The objective is to state the amounts that have to be provided by the budget for the performance of the various tasks. The reviewing of the task and performance indicators is also in progress. The measures will already have their positive impact in the elaboration of the year 2004 budget.</i>
Recommendation:	The government should take the necessary steps to ensure the completion of the reallocations of appropriations between chapters in election years by the relevant deadlines, in order to enable the smooth performance of budgeting activities.
Response:	<i>The elaboration of the agreements concerning the reallocations of appropriations between ministries during the election year was protracted despite detailed preparations.</i>
Recommendation:	The government should elaborate the guarantee rules on the distribution of the revenues to be shared by the Budapest metropolitan government and the district local governments as well as those on the protection of the basic rights of local governments provided for in the Constitution, in accordance with the resolution passed by the Constitutional Court.
Response:	<i>The recommendation will be taken into account in Act No. I of 2003.</i>
Report on the audit of the monitoring system of international financial assistance schemes (0242)	
Recommendation:	The government should take the necessary steps to ensure the introduction of the required amendments to the government decree (Government Decree No. 166/2001. (IX. 14.) Korm.) regulating the establishment of the monitoring and evaluation system of programmes implemented using international aid and financial assistance, to provide for the following: <ul style="list-style-type: none"> – alignment of the provisions contained in the government decree with the commitments originating from international agreements pertaining to the PHARE, the ISPA and the SAPARD programme along with, accordingly, coordination of the rules on the operation of monitoring committees and their secretariats; – prevention of parallel task performance between the Central Monitoring Committee and the National Monitoring Committee.
Response:	<i>The National Aid Coordinator is in charge of the establishment and operation of the monitoring system for the EU assistance schemes. In order to eliminate parallel task performance the draft government decree on the establishment of the monitoring system for the programmes implemented with the aid of financial assistance provided by the European Union contains a proposal concerning the disestablishment of the National Monitoring Committee. The adoption of the draft will realise the recommendations of the</i>

	<i>SAO.</i>
Report on the audit of the operations of the county and the budapest duty offices (0243)	
Recommendation:	In order to promote the collection of duties in arrears the government should initiate- the supplementation of the group of organs entitled to request personal data as listed in Article 43 of Act No. LXXX of 1997 on the persons entitled to the benefits provided by the social security system and to private pensions as well as on the coverage of such services, by adding the duty offices to this group and the supplementation of the set of items listed in Article 5 (1) g) and Article 14 (1) c) of Act No. V of 1990 on sole proprietorships by adding debts in the form of duties, to the set of items.
Response:	<i>Act No. LXXX of 1997 is to be amended by Article XLII of 2002. The act on sole proprietorships has not yet been amended by Parliament.</i>
Recommendation:	The government should take the necessary steps through the minister carrying out the tasks of supervision to accelerate the process of entering ownership by the land registry offices in order to ensure the fulfilment of their obligation to pass documents on to the relevant recipients as specified in the act on duties.
Response:	<i>The elaboration of the concept for the development of the new IT system of the duty offices is in progress, giving priority to the establishment of electronic data flow between duty offices and land registry offices which will accelerate the process of recording entries.</i>
Report on the ex-post audit of the financial management of the Budapest Municipal Government (0246)	
Recommendation:	The government should, in accordance with the resolution passed by the Constitutional Court, elaborate the guarantee rules on the sharing of revenues to be shared between the Budapest Municipal Local Government and the district local governments, in order to enable the exercising of the basic rights of districts as provided for by the Constitution.
Response:	<i>By adopting Act No. I of 2003 the Parliament fulfilled its task concerning the adoption of legislation. Accordingly, the normative procedures specified in a separate piece of legislation shall be applied, for the first time in respect of the sharing of year 2004 revenues, in order to share revenues between the Budapest Municipal Government and the district governments in proportion to their scopes of duties and powers.</i>

Recommendation to the Heads of Chapters

Minister of the Interior

Report on the audit of the operation of the 'Ministry of the Interior' chapter (0215)	
Recommendation:	The head of the chapter should provide: a.) for the coordination of the provisions of Government Decree No. 147/1994. (XI. 17.) Korm. on the scope of duties and power of the ministry and its Organisational and Operational Rules, clarification of the regulations and rules on financial management, updating of procedural rules, job descriptions and the deeds of foundation of budgetary organisations as well as the keeping of the records (core logs) prescribed in Government Decree No. 217/1998. (XII. 30.) Korm. on the regime of the operation of the public finance system;
Response:	<i>Instruction No. 29/2002. (BK. 21.) BM issued by the Minister of the Interior on the Organisational and Operational Rules entered into force on 15 November 2002. The Ministry has invited its budgetary organisations to clarify their procedural regimes and their Organisational and Operational Rules. Such efforts are currently in progress.</i>

Recommendation:	b.) for the rationalisation of the procedures of introducing items in regular use, and the coordinated regulation, at Ministry level, of the introduction of items in regular use and public procurement transactions;
Response:	<i>Coordinated regulation is provided for by the Regulations of the Ministry of the Interior on the Introduction of Items in Regular Use issued by Instruction No. 24/2002. (BK. 17.) BM.</i>
Recommendation:	c.) for compliant and optimum design and establishment of the economic relationships between the economic organisations of the Ministry of the Interior and its budgetary organisations, regulation of the procedural regime relating to the completion of procurement transactions and the use of services;
Response:	<i>The internal audit report containing the review and analysis of the financial management of economic organisations owned by the Ministry of the Interior formulated comments and established tasks in relation to the recommendation.</i>
Recommendation:	d.) for the preparation - in observance of domestic and international norms - of the comprehensive IT security strategy of the chapter and its IT service continuity and disaster recovery plan along with the single set of rules relating to the implementation of the above (covering project management, quality assurance etc.);
Response:	<i>In the wake of ministry-level coordination negotiations the IT operation regulations of the Ministry of the Interior have been put together, and the regulations are expected to enter into force in their final form by the end of the first quarter of 2003.</i>
Recommendation:	e.) for the preparation of well-founded financial plans of the IT strategy and elaboration of the procedural rules (coordination, distribution of work, auditing) of the functional and business organs participating in the development projects in order to ensure effective and compliant implementation of the IT development projects (including PHARE projects);
Response:	<i>The Manual on the regime of the strategic planning of the IT function has not been amended, partly owing to the changes to the Organisational and Operational Rules and the organisation structure and partly to the changes in the relevant legislation.</i>
Recommendation:	f.) in order to ensure successful preparation for the auditing of the budgetary reports of the institutions of the ministry: - for the elimination of the accounting shortcomings identified by external and internal audits, for the efficient utilisation of audit findings, and - for making available the personal and tangible requisites for the work of the budgetary auditing organisation participating in the audit.
Response:	<i>The Ministry has prepared an action plan for the implementation of the items contained in the above paragraph, stipulating the availability of the personal and tangible requisites required for the performance of the audit. Implementation is expected to take place in the near future.</i>
Recommendation:	The head of the chapter should demand compliant and effective performance of the public service audits carried out by the Budapest and county public administration offices.
Response:	<i>The tasks specified in the recommendation are treated as a priority theme in the year 2003 audit plan of the Ministry.</i>
Recommendation:	The head of the chapter should initiate the following: a.) specification of the contents and procedural regime of the audit of local governments

	and their budgetary organisations in statutes of law;
<i>Response:</i>	<i>The Ministry of Finance has not yet elaborated the relevant guidelines.</i>
Recommendation:	b.) supplementation of Act No. LXV of 1990 on local governments as amended, to ensure the balance of the interests of municipalities to be separated, in terms of the division of assets and territory;
<i>Response:</i>	<i>The above task may be elaborated as part of the overall re-drafting of the act.</i>
Recommendation:	c.) amendment to Act LXXXIX of 1992 on the labelled and targeted subsidy systems of local governments as amended, in order to eliminate the lack of coherence relating to the provisions pertaining to supplementary subsidies items.
<i>Response:</i>	<i>This task will be carried out as part of the overall re-drafting of the act on local governments.</i>
Recommendation:	The head of the chapter should take the necessary steps to ensure a review of the supplementary subsidies provided for investment projects underway, implemented with targeted subsidies, in order to enable compliance with the statutory requirements.
<i>Response:</i>	<i>The information provided by the Minister did not cover the utilisation of the recommendation.</i>
Report on the comprehensive audit of the financial management of local governments and local minority councils (0220)	
Recommendation:	The head of the chapter should initiate - together with the Minister of Finance - the establishment and regulation of the frequency of the preparation of the economic programme prescribed in Article 91 of the act on local governments and the applicable general content requirements.
<i>Response:</i>	<i>The draft of the functional manual has been elaborated by the Local Governmental Economic Department of the Ministry of Finance: work on its coordination is in progress.</i>
Recommendation:	The head of the chapter should initiate the development of a way of determining the way to calculate the limit on commitments that may be assumed, as referred to in Article 88 of the act on local governments: <ul style="list-style-type: none"> – to show clearly how decisions taken prior to but affecting the current year should be taken into account; – to identify the way such items can be taken into account in special cases of commitments (e.g. assumption of guarantees, cash sureties etc.); – to clarify the concept of liquid credit that may be disregarded in the calculation of the ceiling of the assumption of commitments.
<i>Response:</i>	<i>The rules on the assumption of commitments are specified in Act LXV of 1990. These rules will also be affected by the overall reform to the system of financing of local governments.</i>
Recommendation:	The head of the chapter should regulate the method of the calculation of the indicators to be used as the basis for the measuring of the unit spending on the performance of mandatory local governmental tasks and ensure that the indicators describing the various activities are formulated in a uniform way to enable comparability, in the areas of normative financing, the annual reports of local governments and in the provision of statistics by the institutions.
<i>Response:</i>	<i>The information provided by the minister did not cover the utilisation of the recommendation.</i>

Recommendation:	The head of the chapter should initiate the specification, in legal statutes, of the contents and relationships of the inventory showing the equity position, to be attached to the closing accounts pursuant to Article 78 (1) of the act on local governments and, in relation with this, the same of the statement of assets also to be presented for information upon the submission of the closing accounts, as referred to in Article 118 of the act on public finances - identified in Article 116 (8) - in order to establish a single system of practices.
Response:	<i>The contents and relationships of statements of assets are regulated by law in Act No. I of 2003 amending the act on local governments.</i>
Report on the audit of the performance of the solid waste management tasks of municipal governments (0221)	
Recommendation:	The head of the chapter should initiate - together with the Minister for Environmental Protection - the development of a methodology and system to encourage selective waste collection.
Response:	<i>The year 2003 budget contains a HUF 2 billion appropriation to facilitate the development of the system of waste management. In this scheme the central budget provides financial assistance for a variety of forms of selective waste collection (waste collection island, yard, vehicles suitable for selective waste collection, composting plant, household composting).</i>
Recommendation:	The head of the chapter should initiate - together with the Minister for Environmental Protection - the development of regular annual supply of natural and financial data on waste management in conformity with the relevant EU regulations, also reviewed by the local governments.
Response:	<i>The development of the data supply system is one of the general objectives of the annex 'National Waste Management Plan 2003-2008' to the Parliament's Resolution No. 110/2002. (XII. 12.) OGY.</i>
Report on the audit of the implementation of the year 2001 budget of the Republic of Hungary (0232)	
Recommendation:	The head of the chapter should review and eliminate the practice of the utilisation of sectoral targeted appropriations and the chapter's reserve for purposes other than those specified in the budget.
Response:	<i>The recommendation will be applied - as a priority requirement - by the chapter in the future re-allocations of the appropriations concerned and in the remittance of amounts.</i>
Recommendation:	The head of the chapter should take the necessary steps in respect of the Central Administration function of the Ministry of the Interior concerning the integration of the accounting area in the organisation of the Ministry, and simultaneously in respect of the review of the whole of the agreement between the Central Administration function of the Ministry of the Interior and the Central Economic Directorate General.
Response:	<i>The pre-requisites for implementation include the availability of the personal and tangible resources. To this end, coordination negotiations are in progress. The issuance of the new Organisational and Operational Rules has provided for a staff increase, enabling the integration of the accounting area.</i>
Recommendation:	The head of the chapter should terminate the practices of the accounting of advance amounts from PHARE assistance and of the rights and titles, in contrast to the provisions of the accounting act.
Response:	<i>The shortcomings have been resolved by the Ministry.</i>
Report on the auditing of the costs of the reconstruction of the real estate designated by the Government for the Prime Minister as permanent place of residence, in relation to the personal protec	

tion of the Prime Minister (0235)	
Recommendation:	The head of the chapter should provide for the regulation in line with the relevant legal regulations of the procurements effected by the Ministry that qualify as ‘special’ on account of considerations of national security and secrecy, paying special attention to the pre-qualifications referred to in Articles 5 and 6 of the governing Government Decree No. 151/1999. (XI. 22.) Korm.
Response:	<i>The information provided by the minister did not cover the utilisation of the recommendation.</i>

Minister of Health, Social and Family Affairs

Report on the audit of the operation of the ‘Ministry of Health’ chapter (0222)	
Recommendation:	The head of the chapter should take the necessary steps concerning the organisation of the effectiveness assessments in the course of the budgeting and utilisation of the chapter-managed appropriations.
Response:	<i>The action plan issued on the basis of the report specifies the tasks of the controlling of subsidies from the point of view of expediency and effectiveness of utilisation. The development and improvement of the system of budgeting and the utilisation of funds is an ongoing task. The development of a monitoring system assisting an effective utilisation of funds is in progress.</i>
Recommendation:	The head of the chapter should initiate amendments to the statutes of law pertaining to service apartments in the health sector to ensure that the relevant statutes contain the conditions of the purchasing of lease rights, the renovation of service apartments, their supplying with furniture and their maintenance, applicable in the chapter.
Response:	<i>Any material action may only be taken in the wake of the amendment to the Government Decree No. 131/1997. (VII. 24.) Korm., which has already been initiated by the Ministry. The criteria for the establishment of the rent payable for service apartments are specified in the joint decree No. 27/2002. (V.4.) EüM-SZCSM issued by the Ministry of Health and the Ministry of Social and Family Affairs.</i>
Recommendation:	The head of the chapter should provide for the completion of the reorganisation of the National Institute for Accidents and Cases of Emergency (Országos Baleseti és Sürgősségi Intézet) in accordance with the relevant provisions of law.
Response:	<i>The tasks of the reorganisation in respect of labour law and asset management have been discussed by the meeting of managers, however, the changes have not been effectively introduced as yet.</i>
Report on the audit of the utilisation of the non-normative central budgetary subsidies provided for public foundations and foundations between 1998 and 2001 (0228)	
Recommendation:	The head of the chapter should reclaim the repayment by the St. Cirill and Method Foundation the amount of HUF 13 million (plus interest of the subsidy not used for the purpose for which it was granted, owing to breaches of obligations for which the foundation is held responsible pursuant to Article 104 (3) of the act on public finances.
Response:	<i>The claiming of the refunding of the financial assistance is in the phase of court proceedings. An arrangement for refunding in instalments is being developed with the participation of the court.</i>
Recommendation:	The head of the chapter should take the necessary action to ensure that the competent departments of the Ministry fully comply with the rules governing the granting of finan

	<p>cial assistance and the checking of the statements submitted by the applicants, and should develop an appropriate information basis for the improvement of coordinated preparations of decision-making within the Ministry.</p> <p><i>Response:</i> <i>The development of an information basis within the Ministry is in progress. Collection of information concerning the introduction of the common database has also been launched.</i></p>
<p>Recommendation:</p> <p><i>Response:</i></p>	<p>The head of the chapter should take the necessary action to ensure that the National Institute for Family and Social Policies (Nemzeti Család- and Szociálpolitikai Intézet) gives an account of the utilisation of the operating expenditures separated with respect to the tender and application schemes of the programme.</p> <p><i>The senior officers of the Ministry have ordered the performance of a supervisory audit. On the basis of the item-by-item auditing of the family policy programme part of the assistance fund has been withheld by the Ministry.</i></p>
<p>Report on the audit of the claims for and the accounting for the utilisation of the year 2001 normative state contributions by local governments (0230)</p>	
<p>Recommendation:</p> <p><i>Response:</i></p>	<p>The head of the chapter should initiate in Annex 3 to the budget act the removal from among the pre-requisites the necessity of confirmation by the head of the public administration office of the legality of the association agreements in the case of the supplementary contributions relating to social and child welfare basic service providing tasks.</p> <p><i>The Ministry initiated the dropping of the review with the Ministry of Finance. The Ministry of Finance, however, considered the maintenance of the regulation as justified on account of the aspects of auditing of the technical/professional contents of associations.</i></p>
<p>Recommendation:</p> <p><i>Response:</i></p>	<p>The head of the chapter should develop the institutional registry system required for the establishment of the task indicator - the capacity in terms of places of accommodation available on days of the provision of care services - for the legal title of temporary institutional provision for the homeless;</p> <p><i>The registration problem is related to the daytime heated public resting rooms for the homeless, rather than the temporary hostel. According to the regulation laid out in section 14/B of Annex 3 to the year 2003 budget act the subsidy is available on the basis of the permitted capacity of the heated daytime resting rooms. The elaboration of the technical regulations involved a review of the registry system as well.</i></p>
<p>Report on the audit of the implementation of the year 2001 budget of the Republic of Hungary (0232)</p>	
<p>Recommendation:</p> <p><i>Response:</i></p>	<p>The head of the chapter should take steps to lay greater emphasis on the supporting of applications by budgetary price quotations and economic calculations.</p> <p><i>The recommendation may be utilised in year 2003.</i></p>
<p>Recommendation:</p> <p><i>Response:</i></p>	<p>The head of the chapter should take the necessary steps to ensure that the contents of contracts are fully adjusted to the special nature of the subsidised programme in the course of the conclusion of contracts for subsidies. The head of the chapter should have a single system of indicators (suitable for nationwide aggregation) developed for the measurement of the effectiveness and efficiency of programmes aiming to achieve similar objectives.</p> <p><i>The recommendation may be utilised in year 2003.</i></p>
<p>Recommendation:</p>	<p>The head of the chapter should review the issue of the accommodation of the Budapest organs of the National Pension Insurance Directorate (ONYF) and the National Health Insurance Fund (OEP) and should make a proposal to the Government concerning the final solution that would best serve the performance of the administrative tasks of the branches concerned, along with the identification of the financial requirements of im</p>

<i>Response:</i>	plementation in coordination with the preparation of the year 2003 budget. <i>The management of the OEP and that of the ONYF have developed a variety of concepts and have discussed them with the Ministry. A programme more closely adjusted to the requirements has been implemented in the headquarters in Fiumei út. Necessary steps relating to the investment project have been taken and will be taken by the Director General of the ONYF in his own scope of power.</i>
Recommendation:	The head of the chapter should, within his own supervisory competence, review long term commitments within the operating budgets of the ONYF and the OEP, along with the status of IT development programmes and the accomplishment of the established objectives. The head of the chapter should seek to ensure that further developments are implemented in accordance with the sectoral professional policy objectives of pension insurance and health insurance.
<i>Response:</i>	<i>The recommendation was taken into account by the Ministry in the development of the year 2003 budget.</i>
Recommendation:	The head of the chapter should assess and evaluate the lessons drawn from the three years of the operation of the model experiment of guided patient care and should elaborate, with the involvement of the OEP, the opportunities for widespread application, also bearing in mind the direction of the reform efforts in the health sector.
<i>Response:</i>	<i>Partial reports have been prepared concerning various elements of the experiment, which has been underway for four years. Based on the analyses prepared so far the Ministry has extended the model experiment to 1 million residents.</i>
Recommendation:	The head of the chapter should demand that the Director General of the OEP develops a comprehensive regulation for the exercising of equitability based on a single set of uniform principles.
<i>Response:</i>	<i>The technical/professional concept was developed for the exercising of equitability in year 2002, it will be debated by the Government in the first half of 2003.</i>
Report on the audit of the claims for and utilisation of local governmental subsidies granted for fixed purposes (0234)	
Recommendation:	The head of the chapter should initiate the removal of the restrictions prescribed on the limit value of the subsidy per municipality relating to public purpose employment; the elaboration of the rules on the range of expenditures eligible for subsidies relating to public purpose employment, the mode of accounting of such and the documentation of the performance of work.
<i>Response:</i>	<i>In the course of the year 2003 budget act, the ministry initiated the introduction of a more flexible system of subsidies to provide contributions to the costs of public purpose employment organised by local governments, specifying the range of eligible expenditures as well.</i>
Report on the audit of the utilisation of the budgetary subsidies provided for social organisations and public bodies (0237)	
Recommendation:	The head of the chapter should take the necessary steps to ensure that the competent departments of the Ministry fully comply with the rules governing the granting of subsidies and the checking of the statements submitted by the applicants, and should develop an appropriate information basis for the improvement of coordinated preparations of decision making within the Ministry.
<i>Response:</i>	<i>An action plan was prepared in November 2002 concerning the recommendation which is to be implemented by the end of January 2003.</i>

Ministry of Employment Policy and Labour

Report on the audit of the utilisation of subsidies promoting employment (0226)	
Recommendation:	The head of the chapter should develop a single procedural regime for application across Hungary in the operation of public benefit subsidies and should establish the obligations laid out in the subsidy agreements and should enforce compliance with such obligations. To this end, the head of the chapter should strengthen the system of ex-ante controls incorporated in, and laying down the foundations for, the decision preparation process along with the system of ex-post controls ensuring the calling of the relevant entities to account for the utilisation of funds in accordance with the purposes for which they have been granted.
Response:	<i>Each branch office of the labour centres evaluate and decide on applications on the basis of the same principles and procedural rules, taking into account the specific features of their respective territories. The procedural regime prepared in 1996 for the provision of subsidies to public benefit work performance has been updated on an ongoing basis. The reviewing of the performance of the obligations relating to the subsidies is a task carried out by the labour centres which do take the necessary steps to eliminate irregularities. The coordination of the ex-ante controls, in-process controls and the ex-post controls aimed to guarantee accountability for utilisation according to the intended purposes has been incorporated in the year 2003 task plan of the labour centres.</i>
Recommendation:	The head of the chapter should take the necessary action to ensure standardised interpretation of the labour rules governing public benefit employment.
Response:	<i>The Labour Code and the act on public servants will be coordinated as part of the process of EU legal alignment (the recommendation has been accepted by Government), on the basis of which those working in public benefit employment schemes are covered by the rules of the Labour Code.</i>
Recommendation:	The head of the chapter should urge the development of possibilities for the enhancement of public work programmes and should provide technical and professional guidance for the improvement of the efficiency of the performance of the tasks of local governments relating to the system of the provision of social welfare and unemployment services as well as the rationalisation of public employment schemes.
Response:	<i>The amendment to Government Decree No. 49/1999. (III. 26.) Korm. enables the submission of applications relating to public work programmes even by companies and public benefit enterprises in exclusive state ownership. The public work programme of the plantation and cultivation of forests may be managed directly by the forestry and wood processing companies. The amendment also enables the Minister of Employment Policy and Labour to deviate from the general regime established for the applications for subsidies in respect of headcount or own funding or to provide pre-financing on request by the applicant, thus aiding the applications of smaller local governments.</i>

Minister of Agriculture and Rural Development

Report on the audit of the implementation of the year 2001 budget of the Republic of Hungary (0232)	
Recommendation:	The head of the chapter should take the necessary steps to clarify amounts managed on the AIK deposit account in respect of funds of uncertain origin on the account, falling in the competence of the Agricultural Market Regime Office (Agrárrendtartási Hivatal).
Response:	<i>An action plan has been developed to enable the implementation of the recommendations contained in the report. The measures will be carried out in the first half of 2003.</i>

Recommendation:	The head of the chapter should provide for the complete implementation of the steps taken in order to eliminate the shortcomings identified in the course of the audit of the year 2003 closing accounts.
Response:	<i>An action plan has been developed to enable the implementation of the recommendations contained in the report. The steps will be carried out in the first half of 2003.</i>
Recommendation:	The head of the chapter should take the necessary steps to enable an increase - as far as possible - of the utilisation of subsidies and aids relating to Hungary's EU accession and, to this end, the head of the chapter should provide for the improvement of the standards and purposefulness of the technical/professional work performed by the Ministry.
Response:	<i>An action plan has been developed to enable the implementation of the recommendations contained in the report. The measures will be carried out in the first half of 2003.</i>
Recommendation:	The head of the chapter should take the necessary steps to ensure that the subsidy appropriation established for targeted tasks of rural development enables the transformation of the operation of application schemes into an ongoing process, and thereby the more soundly scheduled utilisation of the funding sources.
Response:	<i>An action plan has been developed to enable the implementation of the recommendations contained in the report. The actions will be carried out in the first half of 2003.</i>
Recommendation:	The head of the chapter should review the justification of the subsidy appropriated under the legal title of 'agricultural logistics' along with the re-allocation of any superfluous funds to other functional areas.
Response:	<i>An action plan has been developed to enable the implementation of the recommendations contained in the report. The actions will be carried out in the first half of 2003.</i>
Recommendation:	The head of the chapter should take the necessary steps to enable an improvement in the cooperation between MARD offices and the county organisations of the Tax and Financial Control Administration (APEH) to ensure coordination of decisions taken in the area of agricultural subsidies and financial performance, through the modernisation of the registry system.
Response:	<i>An action plan has been developed to enable the implementation of the recommendations contained in the report. The measures will be carried out in the first half of 2003.</i>

Minister of Economic Affairs

Report on the operation and financial management of the Hungarian Railways Company (MÁV Rt.) in years 1999 and 2000 (0224)	
Recommendation:	The Minister should repeatedly review the proposals submitted by MÁV Rt. concerning the modernisation of the system of tariffs and discounts, and should provide for their utilisation introducing the modifications considered necessary.
Response:	<i>The review of the recommendations concerning the modernisation of the system of tariffs and discounts has necessitated the establishment within the ministry of a Separate Department for Official Pricing and Tariff Setting (Hatósági Ár- and díjszabási Önálló Osztály).</i>
Recommendation:	The Minister should submit initiatives to the Directorate of MÁV Rt. concerning the following <ul style="list-style-type: none"> – modernisation of the regulations and standardised regulation of the regime of the issuance of regulations and instructions,
Response:	<i>The relevant units of the Company have revised their regulations.</i>

Recommendation:	– performance of cost/benefit analyses in respect of development and investment activities,
Response:	<i>The Chief Executive Officer of MÁV Rt. considers the issuance of a new Instruction on Investments as necessary. This will take place in the first half of 2003. A publication has been prepared drawing the attention of each investing functional service unit to the necessity of observance of the requirements specified by the SAO. From year 2003 on a Project Sheet will contain the most important features of work assignments.</i>
Recommendation:	– a review of the system of the sale and lease of properties,
Response:	<i>MÁV Rt. has transformed the foundations of property management.</i>
Recommendation:	– elimination of the errors and shortcomings in the area of expert contracts.
Response:	<i>The Supervisory Board and the Controlling Department of the Company have reviewed the contracts and the report will be discussed by the Supervisory Board in February. The authorisation of the conclusion of contracts has been transferred by the Chief Executive Officer of MÁV Rt. into his own competence.</i>
Report on the audit of the Mária Valéria bridge investment project (0231)	
Recommendation:	The Minister should take the necessary actions to provide for the long-term availability of the requisites for the operation, maintenance and renovation of the Mária-Valéria bridge.
Response:	<i>An agreement was concluded in October 2001 between the Slovak and the Hungarian ministries of transport. This agreement is in effect until it is superseded by the Slovak-Hungarian border bridge treaty. The treaty is currently subject to coordinating negotiations.</i>
Recommendation:	The Minister should finalise the technical contents of the road network development investment projects connected to the Mária-Valéria bridge with the municipal government of the town of Esztergom along with the ratios of cost-sharing and the conditions of ownership and operation and maintenance.
Response:	<i>The agreement containing the contents of the recommendation was signed on 21 February 2002. Recording by the Land Register Office is a pre-requisite for entry into force.</i>
Recommendation:	The Minister should provide for the development of a database and registry system enabling the efficient retrieval of the basic documents of large investment projects and their processing from the aspect of economic history, as well as the storage of the basic documents at a single location.
Response:	<i>The development of the registry system is in progress. The elaboration of the blueprint of the IT system will be completed by February 2003.</i>
Report on the audit of the implementation of the year 2001 budget of the Republic of Hungary (0232)	
Recommendation:	The Minister should review <ul style="list-style-type: none"> – the circumstances of the foundation of guarantee cooperatives. In the wake of the complete review of the objectives and mode of their operation, taking into consideration the relevant statutory regulations, the Minister should initiate the transformation of cooperatives into other forms of businesses and their operation in such other forms, if necessary;
Response:	<i>The departments of the ministry have prepared a detailed analysis on the basis of the</i>

Recommendation:	<p><i>obligation to take steps in relation to guarantee cooperatives. A variety of proposals have been elaborated concerning the termination of the membership of the Ministry of Economic Affairs.</i></p> <p>– the practice of assuming overyear commitments by targeted appropriations for subsidies managed by chapters and the annual budgetary appropriations.</p>
Response:	<i>The managers of the chapter-managed appropriations review the relevant rules on an annual basis, re-regulating the practice of the assumption of overyear commitments.</i>
Recommendation:	The Minister should provide for compliance with the obligations concerning accounting for the utilisation of chapter-managed funds taken over or handed over under agreements.
Response:	<i>The managers of the appropriations will transform the regulations of the tasks relating to the obligation of giving accounts for the utilisation of funds referred to in the recommendation.</i>
Recommendation:	The Minister should provide for <ul style="list-style-type: none"> – the valuing of the properties registered without a specified value, along with their registration at the relevant values as well as the booking of the rental fees relating to the utilisation of property in the category of the revenues of the asset manager;
Response:	<i>A working committee has been set up for the valuing of the national public road network. The preparation of the register will be completed in January 2003.</i>
Recommendation:	– the financing of the expenditures relating to the introduction of the new national standards to the debit of the accumulation appropriations (since the standard qualifies as an intellectual product falling in the category of intangible assets) and the registration of the standards;
Response:	<i>The competent departments of the ministry are preparing new regulations to enable the implementation of the recommendation.</i>
Recommendation:	– certification and documentation of the completion of task performance in the case of contracts with lawyers related to personal consultancy services.
Response:	<i>Certification of performance is specifically checked by the heads of the departments of the ministry.</i>

Minister of Child, Youth and Sports Affairs

Report on the auditing of the utilisation of the non-normative central budgetary subsidy provided during the period between 1998 and 2001 for public foundations and foundations (0228) and Report on the auditing of the central budgetary subsidies provided for social organisations and public bodies (0237)	
Recommendation:	The Minister should take the necessary steps concerning the reviewing of irregularities of the accounting of the utilisation of subsidies and the application of the necessary sanctions.
Response:	<i>Rules concerning the administration of subsidies provided through competitive application schemes are contained in the regulations on financial management. The shortcomings in the regulations mentioned in the report will be utilised by the ministry as part of the continued updating of the regulations. The experiences in relation to the budgetary</i>

	<i>institutions participating in the administration of the application schemes were favourable.</i>
Recommendation:	The Minister should provide for the development of a standardised document management system which will enable fast retrieval of documents and their management in a breakdown by subsidy.
Response:	<i>The information provided by the minister did not cover the utilisation of the recommendation.</i>

Minister of Defence

Report on the audit of the investment projects implemented in Hungary as part of the NATO Security Investment Program (0217)	
Recommendation:	The Minister should initiate an amendment to Government Decree No. 90/1997. (V. 30.) Korm. on the regulations of the organisational and procedural regime of the planning of the budget, the financial management, and the utilisation of appropriations of the Ministry of Defence and the Hungarian Army in line with the relevant specific features, in order to provide for the completeness of the legal regulation of the management of and the accounting for the utilisation of the chapter-managed appropriation entitled 'Contribution to the NATO Security Investment Program' and the management of the related foreign exchange account.
Response:	<i>The ministry has taken the necessary steps in order to provide for the completeness of the legal regulation of the management of and the accounting for the utilisation of the above mentioned chapter-managed appropriation. Government Decree No. 306/2002. (XII. 27.) Korm. makes possible the opening of a 'NATO Security Program Implementation Account'. The draft of the amendment to the Government Decree No. 90/1997. (V. 30.) Korm. has been prepared. The Government Decree concerning the conditions of eligibility to participation in the application schemes of the Security Programme has been elaborated and work on the statute of law concerning the selection of participating organisations is also in progress.</i>
Recommendation:	In order to ensure clear definition of the hierarchy of the domestic NSIP organisations along with harmonised direction and management of the organisations as well as to improve cooperation between the associated functional areas the Minister should review the operation of the relevant organisations of the Ministry of Defence. A structure where the NSIP organisation is close to the decision-makers but its operative capability is retained, should be developed.
Response:	<i>Questions relating to organisational and competence issues are expected to be settled in the first half of 2003.</i>
Recommendation:	The Minister should take action - independently of the review focused on the organisation - concerning the finalisation and approval of the Organisational and Operational Rules of the domestic NSIP organisation and the Procurements and Security Investments Office of the Ministry of Defence.
Response:	<i>The Organisational and Operational Rules of the Procurements and Security Investments Office of the Ministry of Defence was approved by the administrative state secretary of the Ministry of Defence on 19 September 2002.</i>
Recommendation:	The Minister should take the necessary steps to ensure separated accounting of budgetary subsidies and the NATO funds, the valuation of residual amounts, in order to provide for the regularity of financial accounts and discipline of documentation.

<i>Response:</i>	<i>Steps were taken in parallel with the audit carried out by the SAO. In the course of the assessment of the year 2001 financial management activities of the Ministry, the accounts concerning separated residual funds were compiled in accordance with the recommendations.</i>
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Minister of Information Technology and Communications

Report on the audit of the implementation of the year 2001 budget of the Republic of Hungary (0232)	
<i>Recommendation:</i>	The Minister should, - together with the Minister of Finance, provide for the sound planning, supported by calculations, of the infrastructure related concession and auction fee revenue appropriation.
<i>Response:</i>	<i>The calculation of the concession fee revenues is regulated by the relevant concession contracts. Under some of the contracts the amount of the concession fee depends on the sales revenues, accordingly these can be calculated on the basis of the planned revenues. The planning is also facilitated by the provisions of Act No. XL of 2001 according to which the revenues earned under concession must stated separately in the accounts of the entity concerned. Under other contracts the concession fees are specified by the relevant contracts, consequently, there is no need for any planning for the establishment of the relevant amounts. Furthermore, the concrete calculations underlying the auction revenues constitute parts of the preparatory phases to the various procedures.</i>

Minister of Justice

Report on the auditing of the utilisation of the non-normative central budgetary subsidy provided during the period between 1998 and 2001 for public foundations and foundations (0228)	
<i>Recommendation:</i>	The Minister should initiate an amendment to the regulation contained in Article 74/C. (4) of the Civil Code on the rights of representation, to ensure that besides the employees of a foundation the authorised legal representatives of the foundation concerned (in the case of financial assistance provided to recipients abroad, lawyers of the target countries) can also exercise the rights of representation of the foundation, in accordance with paragraph 219 (1) of the Civil Code.
<i>Response:</i>	<i>An amendment to the above paragraph may be introduced in the course of the introduction of the prospective new Civil Code.</i>
<i>Recommendation:</i>	The Minister should – in agreement with the President of the Supreme Court - - initiate an amendment to Annex 1 to the decree No. 12/1990. (VI. 13.) IM issued by the Minister of Justice concerning the administrative rules on the registration of foundations, in order to ensure that the data contents of the registers are in line with the information requirements of donors and beneficiaries of foundations, their business partners and the organisations carrying out their auditing. The register should be supplemented with the following data: <ul style="list-style-type: none"> – amount and composition of the assets at start-up; – criteria prescribed concerning the amount and contents of the shareholder's equity; – categorisation of public foundations according to organs authorised to establish such organisations as specified in Article 74/G (1) of the Civil Code – in the case of public benefit and priority public benefit (public) foundations the public benefit activities as specified in the deed of foundation (in a categorisation as specified in Article 26 c) of the act on public benefit organisations).
<i>Response:</i>	<i>Provisions amending decrees No. 12/1990. (VI. 13.) IM and No. 6/1989. (VI. 8.) IM is</i>

	<i>sued by the Minister of Justice were contained in Decree No. 24/2001. (XII. 6.) IM. The amendment changed the range of the data to be registered and to be attached in a way somewhat different from the modification proposed by the SAO recommendation. The publicity of the data – (as is shown by the annual report), is provided for by the depositing of the reports.</i>
Recommendation:	The Minister should initiate – with the involvement of the President of the Supreme Court - the development of a computer register covering data of foundations and their deposited balance sheets - which may be inspected by anyone, upon payment of a separate charge, if necessary.
Response:	<i>The ministry sees the continued development of computerised registration as necessary. This may be carried out following the assessment of experience relating to the operation of the existing register.</i>
Report on the audit of the implementation of the year 2001 budget of the Republic of Hungary (0232)	
Recommendation:	The Minister should take the necessary steps to clearly define the position of the Roma scholarship funding sources (title) and the group of Roma students subsidised from such sources and should assess the expected central budgetary subsidy requirement of the scholarship. The Minister should develop an appropriate register for this type of commitment, ensuring, thereby, the transparency of the system.
Response:	<i>The appropriation entitled 'Scholarship subsidy for Roma students' has been transferred by the Ministry of Justice to the Prime Minister's Office on the basis of a Government Resolution. The tasks of planning for year 2003 were also carried out by the Prime Minister's Office.</i>
Report on the auditing of the central budgetary subsidies provided for social organisations and public bodies (0237)	
Recommendation:	The Minister should modify - in agreement with the President of the National Council for the Administration of Justice (Országos Igazságszolgáltatási Tanács) – amendment to annex 1 of the Decree No. 6/1989. (VI. 8.) IM Decree issued by the Minister of Justice concerning the administrative rules on the registration of foundations in order to ensure that the data contents of the registers are in line with the information requirements of donors and beneficiaries of foundations, their business partners and the organisations carrying out their auditing. The register should be supplemented by entering the following data: <ul style="list-style-type: none"> – amount and composition of the assets at start-up; – criteria prescribed concerning the amount and contents of the shareholder's equity; – categorisation of public foundations according to organs authorised to establish such organisations; – in the case of public benefit and priority public benefit (public) foundations the public benefit activities as specified in the deed of foundation (in a categorisation as specified in Article 26 c) of the act on public benefit organisations).
Response:	<i>Provisions amending No. 12/1990. (VI. 13.) IM and No. 6/1989. (VI. 8.) IM issued by the Minister of Justice were contained in Decree No. 24/2001. (XII. 6.) IM. The amendment changed the range of the data to be registered and to be attached in a way somewhat different from the modification proposed by the SAO recommendation. The publicity of the data, as is shown by the annual report, is provided for by the depositing of the reports.</i>
Recommendation:	The Minister should initiate – with the involvement of the President of the Supreme Court - the development of a computer register covering data of foundations and their deposited balance sheets - which may be inspected through the Internet by anyone, upon payment of a separate charge, if necessary.

<i>Response:</i>	<i>The information provided by the minister did not cover the utilisation of the recommendation.</i>
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Minister for Environment Protection and Water Management

Report on the auditing of the performance of the tasks of municipal governments in respect of solid waste management (0221)	
<i>Recommendation:</i>	The Minister should organise the communication of the social environmental requirements of the maintenance of the cleanliness of public places and of solid waste management in the media and at various levels of education, improving thereby the environmental culture and behaviour of the population.
<i>Response:</i>	<i>In order to integrate knowledge elements on waste management in education the Ministry has developed a series of three textbooks, the publication of which is in progress. Further training is also planned by the Ministry to be provided for teachers and the further training of kindergarten pedagogues is also underway. The Ministry provides substantial funding sources for publications aimed at the popularisation of the topic.</i>
<i>Recommendation:</i>	Together with the Minister of the Interior, the Minister should initiate the development of a method and system to encourage selective garbage collection.
<i>Response:</i>	<i>The means of encouragement applied by the Ministry include subsidies from the Environment Protection Fund based on applications submitted to the Ministry. Such subsidies may be requested for the implementation of the necessary investment projects. In the guidelines on subsidies to be issued on 31 January 2003 priority will be assigned to the introduction of selective garbage collection.</i>
<i>Recommendation:</i>	Together with the Minister of the Interior the Minister should initiate the development of an system which conforms with EU requirements for the annual regular supply of physical and financial data on waste management, to be reviewed by local governments also.
<i>Response:</i>	<i>The draft of the government decree concerning the registration and reporting obligation concerning waste has been prepared and professional coordination has been carried out. The draft specifies data provision satisfying the requirements applied by the European Union concerning the supply of such data.</i>
Report on the audit of the operation of the Ministry for Environment Protection chapter (0225)	
<i>Recommendation:</i>	The Minister should take the necessary steps to ensure the preparation of the missing regulations concerning organisations managing targeted appropriations, covering tasks and the utilisation of EU funds, ensuring that internal regulations are only modified when necessary and the Minister should also provide for the availability of the necessary human resources for the performance of tasks relating to the utilisation of the EU aid programmes.
<i>Response:</i>	<i>The fundamental rules pertaining to the ISPA Implementing Agency are laid out in the Organisational and Operational Rules and a proposal has been made concerning the approval of the procedural rules of the Organisation. The elaboration of the PHARE procedural regime is also in progress. The task relating to the increasing in staff was completed by the deadline.</i>
<i>Recommendation:</i>	The Minister should provide for the preparation of the sectoral IT strategy, the development of an uniform information system and shared database along with the publication of standardised IT security regulations.
<i>Response:</i>	<i>A concept has been developed concerning a unified information system. Technical and professional coordination will be carried out in February and the strategy will be devel</i>

	<i>oped on the basis of the results. The regulations have been completed, the amendment to the Organisational and Operational Rules in respect of the management of the IT system has been introduced. The vesting of the head of the IT function with a the competence to direct will depend on the concept of the IT strategy.</i>
Recommendation:	The Minister should provide for the clear regulation of the development and operation of the IT function in a breakdown by organisational units, and the Minister should identify the decision-making competences and scopes of responsibility.
Response:	<i>An IT development proposal will need to be prepared with respect to this issue, containing the decision-making competences and scopes of responsibilities required for the implementation of the development projects, along with the funds to support them.</i>
Recommendation:	The Minister should develop the information basis of projects implemented with international support, along with monitoring to ensure the tracking of the implementation of the projects as well as the regime of the complete registration of the various systems of assistance. The Minister should take the necessary steps concerning the elaboration of the indicators of the technical/professional objectives promoting the performance assessment of the utilisation of funds and their evaluation.
Response:	<i>The monitoring system has been developed for the supervision of the projects, and it operates on a continuous basis. Coordination negotiations are underway, outside the Ministry too, with respect to the development of the IT basis. The preparation of a registry system coordinated in accordance with the objectives of the National Development Plan and the National Environment Protection Programme is in progress, the expected completion date is 30 June 2003. The regulation pertaining to the regime of the preparation and selection of ISPA projects has been revised. The elaboration of the natural indicators enabling the performance assessment of the utilisation of the amounts of subsidy provided from the Targeted Appropriation for Environment Protection (KAC) will be completed in the near future. The preparation of the audit system relating to this latter task is in progress.</i>
Recommendation:	The Minister should take the necessary steps to ensure the preparation of the Register of Protected Nature Conservation Areas, along with the publication of the asset management concept and technical/professional guidelines pertaining to areas under protection.
Response:	<i>The testing of the computerised administration system of the Register has been launched as ordered by the Nature Conservation Office. The data to be entered in the pages of the register will be made available with the aid of the program for the manual- keeping of the Register of Protected Nature Conservation Areas. The development of the asset management concept will be completed by 31 March 2003. The steps taken with respect to the preparation of nature conservation management plans have been accelerated. The development of the guidelines providing assistance for directorates of national parks for the preparation of nature conservation management plans will be completed in January 2003. Management plans have been developed for 65 out of the 132 caves under special protection in Hungary. The nationwide surveys relating to the declaration of the 'protected' status on an ex lege basis have not yet been completed.</i>
Recommendation:	The Minister should provide for the inclusion of the regular auditing of the EU pre-accession funds in the annual audit plans, laying emphasis on the regular auditing of all chapter-managed appropriations.
Response:	<i>The year 2003 audit plan of the Ministry takes the recommendation into account. The incorporation of the guidelines pertaining to the auditing of EU funds in the ministry's audit regulations is in progress. According to the minister's instruction governing the year 2003 operation of the chapter-managed appropriations, the goals of utilisation have been identified in more detail, the auditing of proper utilisation and controls built into</i>

	<i>the processes are mandatory tasks.</i>
Recommendation:	The Minister should demand the elimination of any practices contrary to the accounting regulations, particularly those identified in the area of the registration and stock-taking of areas under protection and other pieces of assets.
Response:	<i>The implementation of the measures prescribed for the elimination of practices contrary to the relevant accounting regulations is in progress.</i>
Report on the audit of the implementation of the year 2001 budget of the Republic of Hungary (0232)	
Recommendation:	The Minister should take the necessary steps to ensure the reviewing of the well-foundedness of appropriation residues burdened by commitments.
Response:	<i>An action plan has been prepared with respect to the recommendation, prescribing that the institutions belonging to the chapter should increasingly utilise the findings of internal audits and supervisory audits. Furthermore, the reviewing of the documents of the appropriation residues burdened by commitments has to be included in the annual auditing plan of the ministry.</i>
Report on the audit of the environmental investment projects in the area of environment protection in the West Transdanubian region (0239)	
Recommendation:	In order to promote the implementation of the regional environment protection tasks the Minister should increasingly participate in the coordination of the bilateral relationships, in the fostering of initiatives and should organise the effective and concentrated utilisation of funds. The Minister should contact the Austrian Ministry of Environment Protection and should gather information on potential subsidies in Hungary.
Response:	<i>An action plan has been developed on the basis of the recommendation, the implementation of which is in progress. On the one hand, the environment protection inspectorates have provided information on the environment protection investment projects (to be) launched in their respective areas and they are (will be) monitoring the progress of implementation. On the other hand, they have taken the first steps with respect to the gathering of the required information.</i>

Head of the Office of the President of the Republic of Hungary

Report on the audit of the operation of the chapter of the Office of the President of the Republic of Hungary (0227)	
Recommendation:	The head of the Office should provide for the supplementing and modification of regulations and for the coordination of the various regulations in order to eliminate identified deficiencies of the regulations (involving the Organisational and Operational Rules, hospitality regulation); for the updating of the internal audit regulations and the regulation of the regime of the use of the mobile telecommunication services.
Response:	<i>The Office has introduced rules on the regime of the use of the mobile telecommunication services, eliminating the contradictions in the regulations.</i>
Recommendation:	The head of the Office should review the possibilities of the performance of the autonomous internal auditing tasks in line with the scope of tasks of the Office, providing for the operation of the internal audit function.
Response:	<i>The Office has updated the internal auditing regulations and has commissioned one employee to carry out the autonomous internal audit tasks.</i>
Recommendation:	The head of the Office should take the necessary steps concerning the archiving of old medals/decorations of historic value and the utilisation of any surplus stocks.
Response:	<i>The Office has disposed of its stock of old decorations no longer in use.</i>

The Secretary General of the Hungarian Academy of Sciences

Report on the audit of the operation of the Hungarian Academy of Sciences chapter (0223)	
<p>Recommendation:</p> <p><i>Response:</i></p>	<p>The Secretary General should develop - in agreement with the president of the Academy - an internal organisation system that is more in line with the requirements of the organisation and that would accelerate decision-making in respect of economic/financial issues.</p> <p><i>Recommendations have been developed concerning the acceleration of the decision-making process of the various competent bodies relating to economic/financial issues, enabling the reviewing of the internal regulations.</i></p>
<p>Recommendation:</p> <p><i>Response:</i></p>	<p>The Secretary General should issue an order concerning the assessment of the findings accumulated in the course of the operation of competitive application schemes by the Office of Subsidised Research Units - in cooperation with the departments in charge of the various disciplines - along with the submission of the summary of the conclusions of the assessment to the Council of the Research Units of the Academy.</p> <p><i>The assessment concerning the paper summarising the experiences of the operation of the competitive application scheme of the subsidised research units and its preliminary analysis is in progress.</i></p>
<p>Recommendation:</p> <p><i>Response:</i></p>	<p>The Secretary General should initiate the continued development of the method elaborated and applied for the measurement of scientific achievements by the Council of the Research Units of the Academy in a direction as will make it suitable for more in-depth economic analyses as well.</p> <p><i>The realisation of the recommendation is in progress.</i></p>
<p>Recommendation:</p> <p><i>Response:</i></p>	<p>The Secretary General should initiate a measure whereby – with the involvement of the competent scientific bodies - the young researchers who have successfully met the requirements of the applications in the course of the utilisation of the chapter managed appropriation entitled ‘Subsidising of young researchers through application schemes’ are granted preferably long-term status as employees.</p> <p><i>An information bulletin will be put together on the opportunities for employment in permanent positions.</i></p>
Report on the audit of the implementation of the year 2001 budget of the Republic of Hungary (0232)	
<p>Recommendation:</p> <p><i>Response:</i></p>	<p>The Secretary General should take the necessary actions to ensure the supplying of the basic documents and invoices/receipts relating to the VISA Card payments of the International and Cooperation Office. Through a targeted examination of supervisory audit the Secretary General should review the completeness of the documents underlying services invoiced on.</p> <p><i>The Secretary General of the Academy has ordered the conducting of a targeted audit concerning the above topics. Problems arising from systemic deficiencies have been eliminated.</i></p>
<p>Recommendation:</p> <p><i>Response:</i></p>	<p>The Secretary General should take the necessary action to ensure that funds transferred to social organisations are supported by decisions made by the public body.</p> <p><i>The Secretary General of the Academy has introduced an obligation concerning the application of the documents required for the undertaking of commitments with respect to the utilisation of the funding limit of the public body, eliminating thereby the possibility of the repeated occurrence of the shortcoming identified.</i></p>

Minister heading the Prime Minister's Office

Report on the auditing of the operation of the Prime Minister's Office chapter (0216)	
Recommendation:	The Minister should take the necessary steps to ensure the elimination of the regulatory and operational deficiencies identified in the course of the evaluation of the internal control mechanisms of the institutions supervised by the Minister (in respect of assignment fees, delegations abroad, hospitality, car use, regulation of committees' work in the case of public procurement programmes, compliance in accounting and documentation) and the updating of the existing regulations (Organisational and Operational Rules, procedural rules and accounting regulations).
<i>Response:</i>	<i>The identified shortcomings in regulations and operation have been eliminated. The regulations are updated and supplemented by the Prime Minister's Office and its institutions.</i>
Recommendation:	The Minister should provide for more professional, sounder planning and utilisation of budgetary appropriations, particularly in the case of certain chapter-managed appropriations in the field of programme financing.
<i>Response:</i>	<i>The information provided by the minister did not cover the utilisation of the recommendation.</i>
Recommendation:	The minister should give priority to the application of the requirements of data protection in the governmental IT function and to the increased enforcement of the general governmental interests in data asset management.
<i>Response:</i>	<i>In order to meet the requirements of data security the preparation of the replacement of the applied systems has been launched. Owing to criticism of the dBase based systems, which operate on a DOS platform, the Office has asked the Ministry of IT and Communications and the Ministry of Finance for assistance.</i>
Recommendation:	The minister should facilitate the establishment of the uniform databases required for the more effective operation of the integrated vacationing system.
<i>Response:</i>	<i>The uniform database has been set up.</i>
Report on the audit of the financial process of the investment project of the construction of the M3 motorway (0218)	
Recommendation:	The regularity audit of the utilisation of the budgetary funds made available for the implementation of the section of the M3 motorway between Füzésabony and Polgár should be integrated in the audit plan.
<i>Response:</i>	<i>This task has in the meantime been transferred to the Ministry of Economic Affairs and Transport.</i>
Recommendation:	The Minister should develop - with the involvement of the minister of transport and water management - the regime for the transfer of development projects to businesses, to be applied by the NA Rt. (National Motorways Company), which will include the rules of planning, technical preparations, tendering, and of implementation through eliciting bids without tendering, along with the range of the contractual conditions to be applied on a mandatory basis as well as the conditions for the permission to deviate from such contractual conditions.
<i>Response:</i>	<i>This task has in the meantime been transferred to the Ministry of Economic Affairs and Transport.</i>
Recommendation:	The Minister should regulate - with the involvement of the minister of transport and water management - the regime of the technical and economic accounting for the investment projects as will enable the analysis and checking of the efficiency, profitability and effectiveness of investment projects based on comparison of the costs of investment and

	the applied unit prices. The Minister should develop the necessary register containing the relevant data on state investment projects.
<i>Response:</i>	<i>This task has in the meantime been transferred to the Ministry of Economic Affairs and Transport.</i>
Recommendation:	The Minister should initiate – through MFB Rt. [Hungarian Development Bank]– that the Board of Directors of the National Motorway Company (NA Rt.) should: ensure the statement of the share of ownership in ÁAK Rt. under asset management by NA Rt. among its participations in accordance with the provisions of the Accounting Act; fulfil its obligations to provide data stemming from the asset management contract in line with the rules on the management of treasury assets; modify the contract concluded with the entity carrying out the tasks of the Engineer so as to guarantee at all times the independence of the entity from the contractors involved in the implementation of the investment project; include the regular auditing of the implementation of the motorway construction project of the section of the motorway M3 between Füzésabony and Polgár along with that of the implementation of the speedway network development programme in its audit plan; the Board of Directors of ÁAK Rt. should provide for compliance with the provisions laid out in the accounting act in respect of the statement of external assets.
<i>Response:</i>	<i>This task has in the meantime been transferred to the Ministry of Economic Affairs and Transport.</i>
Recommendation:	The Minister should order the Treasury Assets Directorate, in the course of the processes of development, maintenance and operation of the public roads in exclusive state ownership, in the conclusion of the asset management contracts, the keeping of land registers (cadastre) and in the course of the audits performed by the owner, to pay special attention to the exercising of the ownership rights of the state. The Director of the Directorate should be called on to report on these tasks at regular intervals.
<i>Response:</i>	<i>This task has in the meantime been transferred to the Ministry of Economic Affairs and Transport.</i>
Report on the auditing of the central budgetary subsidies provided for social organisations and public bodies (0237)	
Recommendation:	In view of the statutory and the functional requirements, the contents of each subsidy contracts should be clarified.
<i>Response:</i>	<i>In compliance with the requirements imposed on the subsidy contracts the Budget Department has tightened the rules on the accounts pertaining to the utilisation of subsidies.</i>
Recommendation:	More efficient controlling of the utilisation of financial assistance should be provided for in the criticised areas as well.
<i>Response:</i>	<i>The information provided by the minister did not cover the utilisation of the recommendation.</i>
Report on the auditing of the monitoring system of international subsidy schemes (0242)	
Recommendation:	The Minister should provide for the provision of methodology, reporting and IT training at regular intervals for those performing tasks of monitoring, in order to enable them to acquire EU practices and to use the information system effectively.
<i>Response:</i>	<i>The information provided by the minister did not cover the utilisation of the recommendation.</i>
Recommendation:	The Minister should take the necessary steps - in cooperation with the heads of the min

tion:	istries using the Hungarian Single Monitoring System - to ensure the up-to-dateness of the data held in the system, to guarantee the continuous entering of data and to integrate it in the process of the implementation of the projects. To this end, the Minister should initiate the provision of the necessary resources.
<i>Response:</i>	<i>The information provided by the minister did not cover the utilisation of the recommendation.</i>

Minister for the National Cultural Heritage

Report on the audit of the implementation of the year 2001 budget of the Republic of Hungary (0232)	
Recommendation:	The Minister should review completion in accordance with the conditions specified in the agreements concluded for the subsidising of the film programmes relating to the turn of the Millennium.
<i>Response:</i>	<i>The information provided by the minister did not cover the utilisation of the recommendation.</i>
Recommendation:	The Minister should initiate an amendment to the regulations concerning the artistic assistance to theatres and puppet theatres contained in the budget act to prevent unjustified advantages for local governments.
<i>Response:</i>	<i>The information provided by the minister did not cover the utilisation of the recommendation.</i>
Report on the auditing of the central budgetary subsidies provided for social organisations and public bodies (0237)	
Recommendation:	Performance of regular audits of social organisations should be provided for.
<i>Response:</i>	<i>The Audit Department of the Ministry introduced - on the basis of an initiative submitted by the administrative state secretary - regular and ad-hoc audits based on requests by functional departments. The auditing of the utilisation of the HUF 155.5 million subsidy provided in 2001 to social organisations of nationwide competence performing artistic and cultural activities, has been scheduled by the Ministry as a targeted audit in its year 2003 audit programme.</i>

Minister of Education

Report on the findings of the audit of the measures taken with the aim of improving the quality of primary school education (0219)	
Recommendation:	In order to clarify the objectives and the tasks to be carried out in order to accomplish the objectives, the Minister should <ul style="list-style-type: none"> – elaborate the long and medium term development plans as prescribed in the act on public education and take into account the resources required for their implementation;
<i>Response:</i>	<i>The Ministry has elaborated the strategic tasks with respect to all areas of public education. The action plans of the National Development Plan have been worked out and the Ministry has elaborated the cost requirements of the priorities and the system of the provision of the tasks.</i>
Recommendation:	– define the category of ‘disadvantaged position’ qualifying as a risk factor from the aspect of the quality of education and should prepare a task plan to alleviate such situations, assigning the necessary resources.

<i>Response:</i>	<i>The Ministry has been making efforts to give a definition of 'disadvantaged position' in the act on public education. The institution of the minister's commissioner in charge of affairs of people in disadvantaged position and of issues relating to the Roma community has been set up. In order to reduce the inequality of opportunities the ministry considers the development of the network of student hostels as a priority task, the promoting or remedial education programmes, along with the provision of a complex system of assistance for the education of handicapped children and chronically ill children with other students and the Ministry is also providing supplementary funding for the integrated education of Roma students.</i>
Recommendation:	The Minister should take steps for more emphasis to be given by the central budget to the operation of associations maintaining, running or in charge of institutions, in the interest of increasing the expertise of the managers/maintainers and to make task performance more efficient.
<i>Response:</i>	<i>The Ministry encourages small villages to apply solutions based on joint efforts and provides financial requisites for the functioning of such associations.</i>
Recommendation:	In order to improve the possibilities for the use of pedagogical professional services and to standardise their conditions <ul style="list-style-type: none"> – the Minister should identify for the county local governments the minimum level of the functional services to be performed free of charge; – the Minister should initiate that the central budget provides a state contribution or subsidy for fixed purposes for the use of such services; – the Minister should prescribe the establishment of contacts - on a mandatory basis - between the county educational service providers and OKÉV.
<i>Response:</i>	<i>The information provided by the minister did not cover the utilisation of the recommendation.</i>
Recommendation:	The Minister should take steps concerning the coordination of the centrally prescribed statistical and financial reporting systems, and the realisation of data collection and information provision, enabling the analysis of financial data by type of school and to extend the system of collection of statistics to the educational professional services.
<i>Response:</i>	<i>The information provided by the minister did not cover the utilisation of the recommendation.</i>
Recommendation:	The Minister should provide guidance for local governments in respect of problematic financing and labour rights issues, in order to implement the county-based substitution system.
<i>Response:</i>	<i>The information provided by the minister did not cover the utilisation of the recommendation.</i>
Recommendation:	The Minister should initiate the provision of central subsidy for the differentiated rewarding of high quality work.
<i>Response:</i>	<i>The information provided by the minister did not cover the utilisation of the recommendation.</i>
Recommendation:	The Minister should identify the extra subsidy requirement for the provision of the items included in the list of mandatory learning aids up to the year 2003, and should initiate the raising of the funds required for this. If this is not possible, the statutory deadline for implementation should be modified.
<i>Response:</i>	<i>The Ministry is increasing the financial assistance provided for textbooks to an extent that will make it possible for schools to provide textbooks for those in need, at all levels of education, free of charge.</i>

Recommendation:	In order to develop a system of measuring/evaluation and functional auditing the Minister should specify the mandatory frequency for such tasks and should regulate their content criteria, along with the elaboration of the technical/professional expectations to be met by those performing the task.
Response:	<i>The decree on the regime of the year 2002/2003 academic year will influence the governance of each level of public education in respect of the implementation of planning, measurement, evaluation and mandatory technical/professional supervision.</i>
Report on the audit of the claims for and accounting for the utilisation of the normative state subsidies in year 2001 by local governments (0230)	
Recommendation:	In Annex 3 to the budget act the Minister should initiate: <ul style="list-style-type: none"> – the stipulation that for the purposes of the calculation of the indicator for the normative state contribution provided for the programmes aimed at the promotion of the teaching and education of disadvantaged students, the students in disadvantaged position be identified by the notary from the registers put together as of the point in time specified for such purposes by the public education statistics; – the identification of how to calculate the indicator relating to education involving accommodation at school; – clarification of the rule that students participating in programmes of learning and doing homework at school outside the regular classes may also be included in the number of students for whom normative state contribution is granted under the title of such a contribution for daytime home service for primary school students; – amendment to the regulation concerning the deeds of foundation of public education institutions within the supplementary rules so as to ensure that the regulation applies to the group of specifically identified activities giving rise to eligibility to the use supplementary services.
Response:	<i>The ministry took into account the recommendation and have modified the relevant legal regulations.</i>
Report on the audit of claims for and utilisation of subsidies provided for local governments for fixed purposes (0234)	
Recommendation:	The Minister should order a review of whether the minimum of a 25 % ratio prescribed for the procurement of text books and ancillary books (and compulsory literature) to be used in the long term of the total subsidy for the school book purchases of students is in line with the requirements of the schools and their actual needs; based on the findings of the review the Minister should contemplate - to ensure proper utilisation of the assistance - a reduction of the 25 % ratio and/or sanctioning of non-compliance with the ratio to be prescribed.
Response:	<i>Based on the year 2003 budget the Ministry can provide increased assistance for the purchasing of textbooks for students.</i>
Recommendation:	The Minister should initiate simplification and modernisation of the government decrees containing detailed rules on the special examinations and further training for teachers and the titles of subsidies for the purchasing of specialist literature by teachers, along with the coordination of the regulations on the sectoral, budgetary and reporting requirements relating to the utilisation of the financial assistance.
Response:	<i>The information provided by the minister did not cover the utilisation of the recommendation.</i>

The Minister of Finance

Report on the audit of the year 2000 activities of the Mortgage Bank (Földhitel- és Jelzálogbank Rt.) (0213)	
Recommendation:	The Minister should assess and evaluate the operation of the Bank to date, along with the accomplishment of the government's objectives, the future strategy of the Bank and should inform the Government of the findings of these efforts.
<i>Response:</i>	<i>The Government has decided on the privatisation of the Bank, and this is planned to be completed in 2003. ÁPV Rt. has put out a tender for the selection of the privatisation consultant.</i>
Recommendation:	The Minister should initiate that the Board of Directors of the Bank <ul style="list-style-type: none"> – modernises the regulations and their systemic application, – provides for the reflection of certain costs and expenditures in the business plan in line with their respective contents, – full compliance with the regulations of the system of incentives.
<i>Response:</i>	<i>The Board of Directors of the Bank has modernised the internal regulations and promised to ensure compliance with the regulations of the system of incentives. In the future the business plan will reflect the various costs and expenditures.</i>
Report on the comprehensive audit of the financial management of local governments and local minority councils (0220)	
Recommendation:	Together with the Minister of the Interior, the Minister should initiate the specification of the frequency of the preparation of the economic programme prescribed in Article 91 of the act on local governments, and the identification and regulation of the general content requirements to be applied in this area.
<i>Response:</i>	<i>Regulation of the content requirements and frequency may be considered on the basis of the development of the long term financial planning system for the national economy in the course of the introduction of the necessary amendment to the act on local governments.</i>
Recommendation:	Together with the Minister of the Interior the Minister should initiate the standardised definition of how to calculate the limit on the assumption of commitments as specified in Article 88 of the act on local governments: <ul style="list-style-type: none"> – the way in which decisions taken prior to the year under review but influencing the year under review should be clearly specified; – how factors can be taken into account in special cases of the assumption of commitments (e.g. provision of guarantee, surety); – clarify the concept of liquid credit that may be disregarded in the calculation of the ceiling of the assumption of commitments.
<i>Response:</i>	<i>The recommendation falls in the scope of competence of the Minister of the Interior.</i>
Recommendation:	The minister - in cooperation with the Minister of the Interior - should regulate the mode of the development of the indicators underlying the measurement of the unit costs of the mandatory local governmental tasks and should ensure that in normative financing, in the annual reports of local governments and in the provision of statistical data by institutions the ratios characterising the various activities are formulated in a standardised way to enable comparison.
<i>Response:</i>	<i>The indicators of the normative state subsidies and contributions are applied as factors of allocation and their establishment is based on budgetary and technical policy considerations. At the same time, some ratios also represent interests going beyond such policy considerations and the Parliament may also accept normatives that are not related to the</i>

	<i>collection of statistical data.</i>
Recommendation:	Together with the Minister of the Interior, the Minister should initiate the specification in legislation of the contents and relationships of the inventory (stating the position of assets) to be attached to the closing accounts pursuant to Article 78 (1) of the Act on Local Governments, and in line with this the statement of assets also to be presented along with the closing accounts as referred to in Article 118 of the Act on Public Finance- named in Article 116. 8.
Response:	<i>The development of legal regulation pertaining to the statement of assets to be attached to the closing accounts is in progress. This is significantly promoted by the complete survey of properties of local governments to be completed by 1 January 2003 and the renewal of the property cadastre registers.</i>
Report on the auditing of the performance of the tasks of local governments in settlements in respect of solid waste management (0221)	
Recommendation:	The Minister should pay attention to the maintenance of the real value of the normative contribution entitled 'Municipal, administrative, communal and sports related tasks' to provide for the operational costs of tasks of waste management.
Response:	<i>The amount of the appropriation was increased from year 2002 to year 2003 by 46 %.</i>
Recommendation:	The Minister should provide - through a review of the existing system of functional tasks - for the separation of the revenues and expenditures relating to solid waste management within the functional task No. 90211-3.
Response:	<i>The revenues and expenditures relating to solid waste management may be separated in the course of the comprehensive review of the system of functional tasks to be carried out in year 2003.</i>
Report on the auditing of the utilisation of the non-normative central budgetary subsidy provided during the period 1998 - 2001 to public foundations and foundations (0228) and Report on the auditing of the central budgetary subsidies provided for social organisations and public bodies (0237)	
Recommendation:	The Minister should take the necessary steps to ensure - together with the Public Finance Office - the improvement of the existing system of identification and monitoring in order to enable the Public Finance Office to provide complete information on a regular basis in the future concerning all funds disbursed to recipients outside the public finance system, in a breakdown by business organisations, the public benefit organisations specified in the act on public benefit organisations (social organisations, foundations, public foundations, public benefit corporations, public bodies, national sports associations).
Response:	<i>Based on the recommendation work has been commenced on the improvement of the National Subsidy Monitoring System, which will become capable of the complete registration of the funds disbursed to recipients outside the general government system.</i>
Report on the audit of the claims for and accounting for the utilisation of the normative state subsidies in year 2001 by local governments (0230)	
Recommendation:	On the basis of a review of the system of auditing operated by local governments the Minister should make a proposal concerning the encouragement and support from the central budget of the operation of 'audit associations' of the municipal governments of small settlements.
Response:	<i>In the year 2003 budget the Parliament has adopted a centralised appropriation for this purpose, entitled 'Subsidy for internal audit associations', of HUF 100 million.</i>
Report on the audit of the implementation of the year 2001 budget of the Republic of Hungary (0232)	
Recommendation:	The Minister should initiate a breakdown of the value added tax revenue appropriation falling in the respective scopes of competency of the Customs and Finance Guard (VP)

	and the Tax and Financial Control Administration (APEH) constituting direct revenues of the central budget, along with the budgeting of the excise tax and consumption tax under separate sub-titles.
<i>Response:</i>	<i>In the view of the Ministry of Finance separate handling of the VAT revenues would not be a proper solution either in the budget bill or in the accounts presented to the European Union. The most appropriate solution is registration of the revenues separately in the Treasury Accounts, while in the budgeting phase, the appropriation is stated in accordance with the macro-economic categories of final consumption. In the year 2003 budget act, however, the consumption tax and the excise tax reflect a breakdown by separate sub-titles.</i>
Recommendation:	The Minister should ensure that the proposed act on the closing accounts should contain provisions concerning the revenue surpluses - or deficits - of the segregated budgetary funds in the given budget years, in accordance with the rules laid out in Article 8/A (1) of the public finance act.
<i>Response:</i>	<i>In the case of the Labour Market Fund there is a balance keeping obligation approved by Parliament. In respect of the utilisation of any surpluses in the Central Nuclear Fund, guarantee is provided by the provisions laid out in Act CXVI of 1996 on nuclear power.</i>
Recommendation:	In respect of the Labour Market Fund the Minister should assess the possibilities of the arrangement and regulation of the Fund, in order to ensure that the balance of the Fund contains data on the receivables relating to the contributions and donations collected by APEH.
<i>Response:</i>	<i>With an amendment to Government Decree No. 249/2000. (XII. 24.) Korm. this question could have been resolved, however, owing to the objections of the fund manager this was not carried out. The topic requires further negotiation.</i>
Recommendation:	The Minister should initiate amendments to the public finance act on the basis of which the effective regulations will enable cooperation between the Agricultural Market Regime Office of the Ministry of Agriculture and Regional Development, Hitelgarancia Rt., Agrárvállalkozási Hitelgarancia Alapítvány (Credit Guarantee Foundation for Agricultural Enterprises) and APEH based on mutual information supply, in order to avoid multiple sureties and the possibility of budgetary expenditures arising from this.
<i>Response:</i>	<i>The public finance act has not been amended, despite the joint initiative submitted by the Ministry of Finance and the Ministry of Agriculture and Rural Development, proposing to APEH that where surety is called as required by the tax authority the amount disbursed by Agrárvállalkozási Hitelgarancia Alapítvány should reduce the outstanding loan debt. The Foundation, however, does not issue certificates. The application of the recommendation would involve numerous consequences with respect to legislation. In getting prepared for EU accession the line ministry is coordinating its decrees on subsidies on an ongoing basis.</i>
Recommendation:	The Minister should prescribe in Government Decree No. 217/1998. (XII. 30.) Korm. that budgetary organisations should have only the amount required for the undisturbed settlement of payments at the beginning of the year, in petty cash, their postal savings books and on their accounts relating to their bank cards.
<i>Response:</i>	<i>The Government Decree identifies the legal titles of cash that may be kept in petty cash. The cash management regulations approved by the organ supervising the chapter specifies the maximum amount that can be kept in petty cash.</i>
Recommendation:	The Minister should provide for the approval of the appropriation residues of the chapters within the deadline specified by law.

<i>Response:</i>	<i>The intention of the Ministry of Finance is that approval will be granted by the deadline in 2003.</i>
Recommendation:	The Minister should pay special attention to the operation of the carry-over financial effects of the 2001 and 2002 'basis years' in all respects in the planning of the year 2003 budgets for the Pension Insurance Fund and the Health Insurance Fund.
<i>Response:</i>	<i>In accordance with the recommendation the Ministry of Finance took into account the carry-over effects of the basis years in the course of the planning of the budget.</i>
Recommendation:	The Minister should make a proposal concerning the clear regulation of the contents of the postal costs of the Pension Insurance Fund that may be exceeded without having to modify the relevant appropriation, as specified in Article 4 (2) of the At .
<i>Response:</i>	<i>The necessary clarification has been introduced by Act No. XL of 2002.</i>
Recommendation:	The Minister should initiate in Article 53 (2) and (6) of the Ámr. the setting of a deadline for the modification of the budget decree such as will promote the matching of the data contents of the report on the budget and the closing accounts.
<i>Response:</i>	<i>The Ámr. has been amended: local governments have to close the modification of the prior year's appropriations by the time they complete the information data sheets to be submitted to the Government.</i>
Recommendation:	The Minister should initiate amendment to the provisions contained in Article 37 (1) of Government Decree No. 249/2000. (XII. 24.) Korm. on the special features of the reporting and book keeping obligations of the organisations of the public finance system such as will oblige local governments to prepare inventories through stock-taking at least once per government term.
<i>Response:</i>	<i>According to the regulation contained in the Government Decree the assets and liabilities stated in the balance sheet prepared with the cut off date of 31 December in the budget year have to be inventoried each year, the stock-taking shows the validity of the assets and liabilities stated. According to the new provision of the Government Decree in effect since 1 January 2003 the ongoing registration during the year of the changes of the portfolio of assets makes it possible to establish the portfolio of the assts of a local government on any day of the year.</i>
Recommendation:	The Minister should require that the national commander of the Customs And Finance Guard: should carry out the following: <ul style="list-style-type: none"> – development of a complete controlling system, also providing for an audit trail, covering the entirety of the procedures of the Customs and Finance Guard along with external entrepreneurial activities as well, excluding the possibility of violations;
<i>Response:</i>	<i>The implementation also covered the current account, excise and the VÁMSZÁM systems as well. The implementation of the task is in progress, based on the contract concluded with Kopint-Datorg Rt.</i>
Recommendation:	– the elaboration of the missing organisational and IT regulations and the review of the existing rules;
<i>Response:</i>	<i>All of the missing internal regulations have been elaborated and approved.</i>
Recommendation:	– the development of an independent supervisory unit for IT security;
<i>Response:</i>	<i>A separate organisation unit has been set up performing its work in accordance with the regulation.</i>
Recommendation:	– reviewing of the service provision contracts relating to the operation of the IT sys

tion:	tems;
<i>Response:</i>	<i>The review of the operation contracts has taken place, the organisation will take the necessary steps with respect to the implementation of the new contracts in effect from year 2003 with Kopint-Datorg Rt. and Getronics Kft. through the relevant public procurement procedures, in line with the recommendation.</i>
Recommendation:	– the review and supplementation - if necessary - of the directive on the collection of customs duties and taxes as well as the agreement between the National Headquarters of the Customs and Finance Guard (VPOP) and APEH, paying special attention to the direction of data supply and the contents of the data provided and received, in order to ensure the crediting of the amounts received from enforcement to the appropriate current accounts;
<i>Response:</i>	<i>The agreement concluded in December 2002 between VPOP and APEH has been promulgated. The new agreement enables the identification of the amounts received from forced collection. The draft of the directive on the collection of taxes and customs duties has been elaborated.</i>
Recommendation:	– permanent operation of the IT systems and their reliable task performance, the development of the procedures of change management and documentation, clear segregation of scopes of duties and responsibilities as well as accountability;
<i>Response:</i>	<i>The VPOP directive on the regulation of operation, change management and system administration of the central IT systems of the Customs and Finance Guard has been finalised and has entered into force. The scopes of duties and responsibilities have been segregated.</i>
Recommendation:	– at an organisational level the Minister should assess the IT resources (devices, applications, data etc.) and should provide for the performance of risk assessments;
<i>Response:</i>	<i>The assessment has been carried out, and permanent monitoring is provided for. The implementation of the tasks relating to risk analysis is in progress.</i>
Recommendation:	– reduction of the time requirement for the transfer of items from the customs bond revenue account to the relevant tax and customs duty revenue accounts in order to ensure the statement of the correct amounts of the tax and customs revenue accounts and the portfolio of receivables.
<i>Response:</i>	<i>The steps required for the reduction of the time requirement of the transferring of the relevant items have been taken by the Account Keeping Unit of the Customs Guard. The original 6-day processing time of the automated cash customs bond accounting system by the bank concerned has been reduced to 4 days. The regional commanders have been notified of the problems of the accounting of the customs bond in a circular.</i>
Recommendation:	The minister should request that the president of the Tax and Financial Control Administration (APEH) should provide for the following <ul style="list-style-type: none"> – review of the assignment agreement concerning the purchasing of the receivables owed to the state by businesses in the process of liquidation concluded between MKK Rt. and APEH, bearing in mind the trend of decline of the rate of recovery from the debts of organisations under liquidation ; – development of a recommendation concerning solutions resulting in higher rates of recovery from receivables under liquidation (tendering, in-house task performance etc.).

<p><i>Response:</i></p>	<p><i>The Agreement concluded on the basis of Government Decree No. 48/1999. (III. 18.) Korm. was followed by a series of supplementary agreements. The conditions concerning assignment pertaining to the liquidation procedures published each year were specified by APEH in these agreements. The rates of recovery showed a declining trend, because the companies with substantial portfolios of assets have been liquidated. The majority of the liquidation exercises disclosed since 1999 were simplified liquidations where there was not sufficient coverage for the settlement of all creditors' claims. There have been an increasing number of liquidation procedures with zero rates of recovery. Further decline of the rate of recovery may be caused by the modification in 2001 of the ranking of the settlement of claims as specified in Act No. II of 1991. The decline of recovery rates has also reduced the value payable for assignment. In accordance with the provisions of Act No. LXV of 2002 the preparation of the tendering of the assignment right is in progress.</i></p>
<p>Recommendation:</p>	<p>The Minister should request the heads of Eximbank Rt., MEHIB Rt. and Hitelgarancia Rt. to repeatedly produce the data supplies, by 31 March of the current year (in accordance with the audited data) as per the Decrees No. 48/1997. (XII. 31.) and 16/1998. (V. 20.) PM issued by the Ministry of Finance - on the fourth quarter of the year under review.</p>
<p><i>Response:</i></p>	<p><i>The Ministry of Finance has called on the chief executive officers of Eximbank Rt. and MEHIB Rt. to submit the clarified data following the auditing, to the Ministry of Finance, where data did not match. Furthermore, the Ministry of Finance is initiating amendment to the No. 16/1998. (V. 20.) PM Decree. Hitelgarancia Rt. will agree with the TJKSZ concerning the way data is provided. The Ministry of Finance will initiate amendment to the contract.</i></p>
<p>Recommendation:</p>	<p>The Minister - together with the minister of IT and communication - should provide for the sound planning - supported by calculations - of the revenue estimate to be earned from concession and auctioning fees, relating to the infrastructure.</p>
<p><i>Response:</i></p>	<p><i>The Ministry of Finance and the Ministry of IT and Communication have requested from the Communications Authority the clarification of the estimated revenues expected to be paid by service providers on the basis of the relevant concession contracts. The draft of the new government decree concerning the rules of auctions and tenders concerning the authorisation for the use of frequencies has been finalised and it is expected to be approved in the near future.</i></p>
<p>Report on the audit of the year 2001 operations of the State Privatisation and Holding Company (ÁPV Rt.) and its activities relating to the implementation of the central budget (0233)</p>	
<p>Recommendation:</p>	<p>The Minister should review the practices of the Company in respect of planning and the preparation of the budget, paying special attention to budgetary relationships. The Minister should take the necessary steps to ensure the adoption of the resolution concerning the reporting system of ÁPV Rt. in good time. The Minister should identify and prescribe the precise contents of the various legal titles of expenditures. Account numbers should be included in the system of accounts of ÁPV Rt. covering the lines of the budget act in respect of their contents. The Minister should take the necessary steps to ensure the adoption of the necessary disciplinary measures relating to the deficiencies identified by the audit.</p>
<p><i>Response:</i></p>	<p><i>The majority of the recommendations were taken into account by the Ministry of Finance in the course of the planning of the year 2003 operations. The legal title of 'payments relating to the implementation of measures supporting the asset and economy policy activities of the state in the business sector and the termination of crises', the practice of the preparation of the budget is developed into a complete and transparent system and the management of ÁPV Rt. has been requested to ensure that in respect of the reporting system relating to the assets it should move towards the general accounting require</i></p>

	<i>ments.</i>
Recommendation:	The minister should examine whether it is possible to satisfy the requirement of the act on privatisation concerning the separated registration of the assets of the state assigned to ÁPV Rt. and the assets of ÁPV Rt. - besides the statement of the assigned state assets on the assets side in accordance with the accounting act - through the keeping of a single general ledger at ÁPV Rt., and should amend the accounting regime accordingly.
Response:	<i>The provision of the act on privatisation concerning the separation of assigned assets and own assets cannot be implemented in the closed system of double entry book keeping. This would require an amendment to the law.</i>
Report on the audit of claims for and utilisation of subsidies provided for local governments for fixed purposes (0234)	
Recommendation:	The Minister should initiate by the clarification of the set of documents of the budgetary report introduced by Government Decree No. 249/2000.(XII. 24.) Korm. the statement of the differences of the normative subsidies to be accounted for on forms No. 33 and 51 – in terms of units of measurement and the interpretation of the plus or minus signs. The minister should provide for the separated statement of the utilisation of the subsidies carried over from the previous year under obligations to carry out tasks in the budgetary reports.
Response:	<i>In the view of the Ministry of Finance forms No. 33 and 51. fully provide for the accuracy of the accounts and there is no need for modification. The statement of the use of subsidies carried over from the preceding year subject to pre-determined tasks to be carried out from such funds in the reports is well-founded according to the year 2003 budget act. Steps will be taken in the course of the preparation of the year 2003 report concerning the separate statement of the utilisation of subsidies.</i>
Recommendation:	The Minister should provide guidance - to ensure transparency of commitments assumed by schools and of financial processes - for the booking of items of revenues and expenditures relating to the supply of students with school books (financial settlement) as (carry-over) items outside the budget as well as for the documentation of the receipt of subsidies.
Response:	<i>Detailed regulation should be issued under the responsibility of the Ministry of Education on the basis of Act XXXVII of 2001 and No. 5/1998. (II. 18.) MKM Decree issued by the Ministry of Education. This is where issues relating to the commission system relating to the administration of the supply of school books should be regulated along with the accounting of the subsidies provided for students. The subsidy should not be treated as a carry-over item, since much of it is used for the purchasing of school books remaining in the ownership of schools. The appropriations for fixed purposes can be separated in the system of accounts.</i>
Recommendation:	In order to ensure expedient utilisation of the centralised appropriations the Minister should, with the involvement of the relevant line ministries, in the course of the draft of the year 2003 budget, <ul style="list-style-type: none"> – identify more specifically and in more detail, the range of the tasks relating to children and young people subsidised from the centralised appropriations and the conditions for allocation; – specify the source of the subsidising church organisations in charge of the maintenance of the running of public libraries and community centres, to enhance their interests in such operations.
Response:	<i>The budget act specifies only the frame rules in order to enable the line ministry to allocate resources to resolve problems in their specific field during the given year.</i>
Comment on the year 2003 budget bill of the Republic of Hungary (0241)	

Recommendation:	The Minister should provide for increased involvement of the Tax and Financial Control Administration in the elaboration of the key figures of the given year's budget and those of the forthcoming years.
Response:	<i>The Tax and Financial Control Administration is involved in the planning of the revenue appropriations. In the planning of the budget, based on the development of the macro-economic planning parameters the Ministry of Finance takes into account the effects of the changes of the tax regulations in view of the data provided by the tax authority.</i>
Recommendation:	The Minister should provide for the proper accounting of the customs bond amounts that cannot be identified - originating from previous years - because from the year of Hungary's EU accession the existing system of the customs bonds will be terminated.
Response:	<i>The VPSZP has developed an action plan for the realisation of the recommendation, the implementation of which will be commenced in the near future. The processing of the backlog is in progress.</i>
Recommendation:	The Ministry of Finance should elaborate - on the basis of the possibilities offered by the already operating access database management system - a development proposal for the integration of the chapters of the central budget in the information system at a project level.
Response:	<i>Linking is in progress, in the compiling of the budget for 2004, it is expected to be available for use.</i>
Recommendation:	In line with the act on public finance the Minister should, simultaneously with the submission of the budget bill, provide for the information of local governments concerning the data and regulatory concepts pertaining to them.
Response:	<i>All local governments received the budget bill through the TÁH at the same time it was submitted to the Parliament. They are informed of the adoption of proposed amendments on an ongoing basis.</i>
Report on the auditing of the operation of the county and Budapest duty offices (0243)	
Recommendation:	The Minister should elaborate a proposed regulations of the allocation of duties in the budget bill according to which <ul style="list-style-type: none"> - costs incurred should be borne by organisations that can influence them, i.e. that can directly influence the development of their magnitude (local governments of towns in charge of the maintenance of operation and the county right towns),
Response:	<i>This has been incorporated in the year 2003 budget act.</i>
Recommendation:	- county right towns should have a say in the establishment of funds for specific interests and in the identification of the developments required for the performance of duty-related tasks,
Response:	<i>Local governments may decide on the contents concluded between them so they may have a say in the cost structure of the duty office. The towns of county rights may demand accounting for the utilisation of their financial contributions.</i>
Recommendation:	- the settlement of the settlement liability and the difference between the retained and the actual expenditure, is a mandatory task,
Response:	<i>County local governments may retain the pro-rata costs of the duty offices, therefore ex-post settlement is in their interest when they can demand the surplus.</i>
Recommendation:	- instead of the incurred costs the retaining of performed payments is enabled in accordance with the cash-flow based approach.

<i>Response:</i>	<i>Collection of duties is a wage intensive activity, there is a negligible difference between costs incurred and the expenditures settled, therefore, this area needs no detailed regulation.</i>
<i>Recommendation:</i>	The Minister should make a proposal concerning modification of the duty act that enables the establishment and the ordering of the payment of the duty advances through a simplified process.
<i>Response:</i>	<i>The Ministry of Finance does not consider it worthwhile to alter the legal institution of the duty advance, however, this may be possible through the simplification of the process, in the long term.</i>
<i>Recommendation:</i>	The Minister should order the development of a standard state-approved software for the registration of the duties and the preparation of closure summaries based on the modernised IT devices of duty offices.
<i>Response:</i>	<i>The Ministry of Finance has called on the Public Finance Office to design and carry out the task.</i>
<i>Recommendation:</i>	The Minister should call on the heads of the public administration offices to promote the official activities at duty offices through on-site inspections.
<i>Response:</i>	<i>In December 2002 the Ministry of Finance ordered the heads of the public administration offices to carry out on-site inspections of work performed by duty offices and to review the proper application of substantive and procedural legal regulations.</i>
<i>Recommendation:</i>	The Minister should order the elaboration of a statutory rule to identify the group of persons participating in the performance of the tasks relating to the administration of duties who may be provided with incentives in such a way as will ensure that no problems emerge in respect of the interpretation of the law during implementation.
<i>Response:</i>	<i>The implementation of the task needs further assessment. The chief notary is authorised to decide on the group of civil servants to be involved in the performance of the tasks relating to the collection of duties and the subsequent distribution of bonuses.</i>

Recommendations addressed to the head of every chapter

Report on the audit of the implementation of the year 2001 budget of the Republic of Hungary (0232)	
<i>Recommendation:</i>	They should review the deeds of foundation of their institutions and of the business companies they established; they should provide the missing deeds, and complement and amend the existing ones as necessary in view of the needs raised by business practices followed or due to other reasons. In the case of data modifications, they should forthwith initiate, in compliance with the legal stipulations, the recording of these modifications with the court of registration.
<i>Ministry of Interior:</i>	<i>The reviewing and amending of the deeds of foundation of all the budgetary organs belonging to the Ministry are in progress.</i>
<i>Ministry of Health, Social and Family Affairs:</i>	<i>The Ministry enters all the changes taking place in the basic tasks of the institutions and in the compulsory elements of the deeds of foundation into the registration documents in every case, and transmits the documents concerned to the Public Finance Office.</i>
<i>Ministry of Economy and</i>	<i>The Ministry will review the deeds of foundation and the Organisational and Operational Regulations of its institutions and business companies, as well as the regulations</i>

<i>Transport:</i>	<i>related to their economic and financial management.</i>
<i>Ministry of Child, Youth and Sports Affairs:</i>	<i>The deeds of foundation of the institutions and the business companies founded by the Ministry have already been reviewed and the necessary amendments made.</i>
<i>Ministry of Defence:</i>	<i>The reviewing of the deeds of foundation and the regulations related to economic and financial management are partly in progress and partly have already been made. The regulation of institutional operation is a point of review in every case during chapter supervision.</i>
<i>Ministry of IT and Communications:</i>	<i>Of the 3 independent institutions belonging to the Ministry, the Communication Supervisory Board does not have a deed of foundation at present; its preparation is in progress. The Ministry has reviewed the other deeds and the changes have been recorded.</i>
<i>Hungarian Academy of Sciences:</i>	<i>The Hungarian Academy of Sciences pays special attention to implementing the recommendation.</i>
<i>The Prime Minister's Office:</i>	<i>The Prime Minister's Office has issued the missing deeds of foundation.</i>
<i>Ministry of Environment and Water Management:</i>	<i>The Ministry has already updated the deeds of foundation of its institutions and the business companies that it has established.</i>
<i>Ministry of Finance:</i>	<i>The Ministry of Finance reviews the deeds of foundation and the regulations of the institutional operation of all of its institutions at the beginning of each year.</i>
<i>Recommendation:</i>	<i>They should review the regulations related to the operation, economic management and the financial and accounting systems of their institutions. The ministers should take the necessary steps to ensure that the missing regulations are issued, and that the outdated regulations are brought into line with the legal provisions in force.</i>
<i>Ministry of Interior:</i>	<i>The Ministry has reviewed its decree on the system applied by its organs in respect of assuming obligations, making remittances, affixing countersignatures and making validations.</i>
<i>Ministry of Health, Social and Family Affairs:</i>	<i>The review obligation is also stipulated in decree No. 15/2002. (III. 28.) EüM issued by the Ministry of Health; the deadline for implementation is 30 September 2003.</i>
<i>Ministry of Economy and Transport:</i>	<i>The review is in progress.</i>
<i>Ministry of Child, Youth and Sports Affairs:</i>	<i>The activity of reviewing and updating is carried out on a continuous basis.</i>

<i>Ministry of Defence:</i>	<i>Checking the existence and the content of the regulations related to economic and financial management (the regulations related to entrepreneurial and costing calculations) and the elaboration of the amendments they require are in progress. The ministerial guidelines stipulate the protection of the treasury assets, the regular utilisation of the appropriations and the strengthening of managerial discipline as outstanding tasks of supervision.</i>
<i>Ministry of IT and Communication:</i>	<i>The regulations necessary for operation have been prepared simultaneously with the establishment of the Administration of the Ministry of IT and Communication; due to the modifications in the relevant legal background, the accounting regulations are under revision. The institutional regulations have been prepared.</i>
<i>Ministry of Environment and Water Management:</i>	<i>The topics contained in the recommendation regularly recur requirements in the process of supervision.</i>
<i>Ministry of Finance:</i>	<i>Based on the supervisory reports, the Ministry of Finance continually takes the steps necessary to eliminate the possible shortcomings in the operation of its institutions. If changes are made in the relevant legal regulations, the Ministry of Finance draws the attention of the economic managers to these changes.</i>
<i>Recommendation:</i>	<i>They should regulate the tasks related to the chapter-managed budgetary provisions, the system of the utilisation of, and the accounting with, the appropriations in a clear and accountable way; in the regulations they should deal with the special features of the relevant sectors, as well as with the professional and financial audits that are required before payments are made.</i>
<i>Ministry of Interior:</i>	<i>In order to ensure the implementation of the recommended measures, the Department of Budgetary Audits of the Office for Supervision and Control performed an audit on the utilisation of the reserve allocation.</i>
<i>Ministry of Health, Social and Family Affairs:</i>	<i>The internal regulation contains the tasks and the rules of procedure of the chapter-managed appropriations in detail.</i>
<i>Ministry of Economy and Transport:</i>	<i>The managers will update the regulations related to the chapter-managed appropriations and the relevant control systems by the middle of February 2003.</i>
<i>Ministry of IT and Communications:</i>	<i>A considerable part of the chapter tasks are financed from chapter-managed appropriations, a predominant proportion of which consists of budgetary resources. In the course of using these resources, the Ministry pays special attention to the requirements of transparency and of monitoring the utilisation of these resources.</i>
<i>Ministry of Environment and Water Management:</i>	<i>The utilisation of, and the accounting with, the allocations are regulated in a continuous manner and with fine-tuning.</i>
<i>Office of the President of the Republic:</i>	<i>The work of completing the regulations related to the chapter-managed appropriations is underway.</i>

<p><i>The Prime Minister's Office:</i></p> <p><i>Ministry of National Cultural Heritage:</i></p> <p><i>Ministry of Finance:</i></p>	<p><i>The number of control points has been increased in order to enhance the efficiency of the controls built into the working process regarding the utilisation of the chapter-managed appropriations.</i></p> <p><i>The proposed regulation is included in the regulation of the Ministry issued in respect of managing the chapter-managed appropriations as well as of assuming obligations and making remittances.</i></p> <p><i>The Ministry of Finance brings the regulation related to the utilisation of allocations up to date annually. The range of chapter-managed appropriations changes from year to year. The central budgetary organs provide detailed reports on their use of the chapter-managed appropriations.</i></p>
<p>Recommendation:</p> <p><i>Ministry of Interior:</i></p> <p><i>Ministry of Economy and Transport:</i></p> <p><i>Ministry of Child, Youth and Sports Affairs:</i></p> <p><i>Ministry of IT and Communications:</i></p> <p><i>Office of the President of the Republic:</i></p> <p><i>Ministry of National Cultural Heritage:</i></p>	<p>They should give special attention to the continuity of data co-ordination with the Public Finance Office regarding the modifications taking place in the appropriations and in the implementation of expenditure/income estimates in respect of the institutions under their supervision and the chapter-managed appropriations, and to exploring the cause and effect relations in the deviations.</p> <p><i>The audits performed by the Department of Budgetary Audits of the Office of Supervision and Control promoted the implementation of the recommendation.</i></p> <p><i>The managers of the appropriations have their reports audited.</i></p> <p><i>In the course of the past years there was a continuous improvement in the quality of information-flow between the Public Finance Office and the Ministry and its institutions.</i></p> <p><i>The Ministry monitors and co-ordinates the modifications in the estimates, and co-ordinates the appropriations.</i></p> <p><i>Data co-ordination with the Public Finance Office regarding the execution of allocations takes place on a continual basis.</i></p> <p><i>The Ministry continuously monitors the co-ordination of data taking place in respect of the modification and implementation of the appropriations, and it draws the attention of the heads of the institutions to this requirement in the framework of the reporting activity.</i></p>
<p>Recommendation:</p> <p><i>Ministry of Child, Youth and Sports</i></p>	<p>They should pay special attention to performing managerial audits and to carrying out the control activity built into the working process, which promote the reliability of the reports prepared by the central budgetary organs and the chapter-managed appropriations, to making these audits more effective and to ensuring the utilisation of the findings made by the independent internal audit and supervision audit. In the framework of ex post audits they should review the implementation of the measures included in the managerial plans of action.</p> <p><i>In 2003, the Ministry intends to pay increased attention to the professional and financial audits and to ensuring that the audits are performed in a regulated manner. The objective is to make the audits more effective and to ensure that the findings of supervision</i></p>

<i>Affairs:</i>	<i>and independent internal audit are better utilised.</i>
<i>Ministry of IT and Communications:</i>	<i>The system of controls built into the work processes has been put in place in the short period since the establishment of the Ministry. The reporting on task implementation is regular. Treasury control is ensured.</i>
<i>Ministry of National Cultural Heritage:</i>	<i>The audit department of the Ministry reviews the field of regulations in the course of every audit, and it makes that field a special point in the comprehensive audits made of the institutions once in every three years. In 2002, in the framework of an independent internal audit, the internal regulation and role of financial management was reviewed.</i>
Recommendation:	They should ensure that the data provided by their line departments to the chapter justification of the bill on the annual financial statements and the professional evaluation of the annual draft programmes of the action of their institutions should be available in a more accurate form, and in time.
<i>Ministry of Economy and Transport:</i>	<i>In order to implement the recommendation, the Ministry issued a circular.</i>
<i>Ministry of Youth and Sports:</i>	<i>The Ministry strictly demands that the various professional fields implement their tasks accurately, within the deadlines and to the required quality; thus, in respect of the tasks related to the annual financial statements, it is a requirement that the recommended measures are implemented. The relevant responsibilities are clear.</i>
<i>Ministry of IT and Communications:</i>	<i>The Ministry is going to take the necessary steps.</i>
<i>Ministry of Education:</i>	<i>Taking into consideration the recommendation, the Ministry has prescribed the obligation to meet the requirements of computation and textual evaluation alike, approved in its regulation on the chapter-managed appropriations by the Ministry of Finance.</i>

Recommendations addressed to the heads of the organs supervising the chapters that provide subsidies to public foundations

Report on the audits of the utilisation of non-normative central budgetary subsidies provided to public foundations and foundations between 1998 and 2001 (0228)	
Recommendation:	From an expediency point of view they should review the public foundations that are to be appointed among the already operative public foundations as umbrella organisations, which – based on the professional qualifications of their trustee members and their expert networks – are suitable to ensure, in line with the pre-determined conception of the Ministry concerned, the utilisation of the subsidies provided from the appropriations of professional sector programmes by way of applications, starting with the invitation to apply, up to auditing the utilisation of the subsidies and preparing comprehensive professional assessments.
<i>Ministry of Interior:</i>	<i>The Ministry has appointed the Public Foundation for a Safe Hungary as an umbrella organisation.</i>
<i>Ministry of Health, Social and Family Affairs:</i>	<i>The Ministry will discuss the question in the course of 2003.</i>

<p><i>Ministry of Labour and Employment:</i></p> <p><i>Ministry of Child, Youth and Sports Affairs:</i></p>	<p><i>The National Employment Public Foundation has been placed under the supervision of the Ministry of Labour and Employment. Under the framework of its responsibility, the Ministry has appointed the public foundations that may receive delegated tasks based on the decision of the Managing Authority bearing responsibility toward the EU Commission and on the conditions stipulated in contracts. The National Employment Foundation has been appointed as an intermediary organisation.</i></p> <p><i>The tasks related to the administration of the subsidies provided by way of applications are contained in the regulation of financial management. A budgetary institution (Mobilitás) has an priority role to play in the field of handling the applications.</i></p>
<p>Recommendation:</p> <p><i>Ministry of Interior:</i></p> <p><i>Ministry of Agriculture and Regional Development:</i></p> <p><i>Ministry of Education:</i></p>	<p>The Minister should take the necessary steps to ensure that the declarations stipulated in Article 13/A (4)-(6) of the Act on public finance should be strictly required, at the time of submitting the applications for any kind of subsidy, to be provided from chapter-managed appropriations and at the time of contracting. The approval of subsidies to the public foundations established by the Government should be tied to the submission of the audited annual report for the previous year and to the existence of a cash-flow account with the Hungarian Treasury.</p> <p><i>In the near future a proposal shall be prepared for modernising the system of applications for subsidies from the chapter-managed appropriations. In addition, the Ministry has worked out a programme of action to implement the measures included in the recommendation.</i></p> <p><i>The Ministry concludes contracts with all the subsidised organisations and private persons, which lay down the measures included in the recommendation and which are in compliance with the relevant provisions of the Act on public finance.</i></p> <p><i>In respect of the contracts to be concluded, the Ministry demands the submission of the declarations specified in Article 13/A (4) of the Act on public finance.</i></p>
<p>Recommendation:</p> <p><i>Ministry of Interior:</i></p> <p><i>Ministry of Agriculture and Regional Development:</i></p>	<p>The Minister should take the necessary steps to ensure that the subsidies are provided to public benefit and priority public benefit (public) foundations in accordance with the stipulations set forth in the budget act for the current year and based on the written contracts concluded in line with Article 14 (2) of the Act on the public benefit companies.</p> <p><i>The Programme of Action of the Ministry of Interior covers the measures included in the recommendation.</i></p> <p><i>The Ministry provides the subsidies on the basis of written contracts concluded in accordance with Article 14 (2) of the Act on public benefit companies.</i></p>
<p>Recommendation:</p> <p><i>Ministry of Inte</i></p>	<p>The Minister should take the necessary steps to ensure that contracts are made with all the subsidised organisations and/or private persons – contracts that lay down the objectives of the subsidy, the deadline for, and the content of, accounting, the range of the original documents that are to be attached to the accounts, the conditions for transferring the subsidy and, for such cases, the obligation to make contracts with the beneficiaries, the sanctions for breaching the contractual obligations, and the authority to perform audits of the utilisation of the subsidy in accordance with Article 13/A (2) of the Act on public finance.</p> <p><i>In the concluded contracts the Ministry sets forth the objectives of the subsidies, the</i></p>

<i>rior:</i>	<i>deadlines for their utilisation, the cases where the obligation to repay is applicable, the obligation to pay interest in case of delay and the obligation to audit the utilisation of the subsidies.</i>
<i>Ministry of Health, Social and Family Affairs:</i>	<i>The regulation to be issued by the Ministry in 2003 will contain in detail the measures included in the recommendation.</i>
<i>Ministry of Economy and Transport:</i>	<i>Written contracts have in every case been prepared for the subsidies provided in support of the foundations – contracts that contain the objectives of the subsidies, the deadline and the content of the accounting for the subsidies, the conditions for transfer, the sanctions for breaching the contractual obligations and the authority to audit. The audit divisions of the organisations co-operating in exercising the right to audit also take part in the contracts related to the subsidies provided to foundations from the targeted allocations and, in the cases of breaching the contracts, they initiate the application of sanctions.</i>
<i>Ministry of Defence:</i>	<i>An action plan has been prepared to make the contracts more accurate, to complement them and to lay down the audit and accounting obligations and authorities, the implementation of which will be possible in 2003.</i>
<i>Hungarian Academy of Sciences:</i>	<i>The Secretary-General of the Hungarian Academy of Sciences has issued instructions to implement a programme of steps taking the recommendation into account.</i>
<i>Ministry of Education:</i>	<i>The Ministry has, in every case, concluded a contract with the public foundations and foundations to whom it has provided subsidies. A general standard contract has also been prepared at the level of the Ministry, which is to be concluded with the organisations receiving subsidies.</i>
Recommendation:	The Minister should take the necessary steps to ensure that, based on the objectives specified in the contract and on the original documents excluding the possibility of multiple accounting, every beneficiary account for its subsidy within the indicated deadlines/intermediate deadlines. In accordance with the amounts and frequency specified in the ministerial regulation, the utilisation of the subsidy should also be verified on site, by exercising the right to audit stipulated in the contract. If the contractual or some other obligations are violated, the Minister should take the necessary steps to suspend the payment of any further subsidies, and to ensure that the already remitted subsidies are partly or wholly repaid and that the beneficiary concerned is excluded from any further possibilities for subsidy.
<i>Ministry of Interior:</i>	<i>The action plan prepared with the Ministry of Interior deals also with the measures included in the recommendation.</i>
Recommendation:	The Minister should take the necessary steps to ensure that, if the invitation for applications specifies the production of own resources as a condition to win the application, the amount of the own resources to be obligatorily committed by the applicant should also be recorded. In such cases, the implementation of the obligations regarding the own resources should also be reviewed during the accounting and in the course of the fieldwork.
<i>Ministry of Interior:</i>	<i>The action plan of the Ministry of Interior deals with the measures included in the recommendation.</i>

<i>Ministry of Agriculture and Regional Development:</i>	<i>The Ministry has all the beneficiaries account for their subsidies, based on the objectives specified in the relevant contract and on the basis of the original documents excluding the possibility of multiple accounting within the indicated intermediary deadline.</i>
Recommendation:	The possibilities for obtaining subsidies on the basis of legal regulations, the names of the winner organisations and the amounts of their subsidies should continually be published.
<i>Ministry of Interior:</i>	<i>The Ministry publicly announces the possibilities for application, and declares the list of winners and the subsidy amounts accorded to them in the presence of the national press.</i>
<i>Ministry of Agriculture and Regional Development:</i>	<i>The Ministry continually publishes the possibilities for subsidies, the list of winners and the subsidy amounts accorded to them.</i>
<i>Ministry of Economy and Transport:</i>	<i>The Ministry continually publishes the list of organisations winning subsidies and the amounts they won.</i>
<i>Ministry of Child, Youth and Sports Affairs:</i>	<i>The possibilities of applying for subsidies, the list of the organisations winning subsidies and the amount of the provided subsidies are published in accordance with the legal provisions.</i>