



STATE AUDIT
OFFICE OF HUNGARY

R E P O R T

on the Professional Activity and Operation of the
State Audit Office of Hungary in 2011

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PRESIDENT'S FOREWORD

The State Audit Office of Hungary (SAO), as the supreme financial and economic audit institution of the National Assembly, reports to the National Assembly. The institution carries out its audits independently of any other organisation. The principle of independence applies to the provisions of the new Constitution and the Act on the State Audit Office of Hungary in personal, financial, legal, organisational and activity aspects alike. The State Audit Office of Hungary is the organisation with the widest overview of public finances. Its activities serve both the central and local governments, thus contributing to the high quality and sustainability of public financial management.

The SAO prepares public reports of all its audits. In the annual report prepared for the National Assembly, the President of the State Audit Office of Hungary provides information on the audit activity, operation and financial management of the organisation in the preceding year, as well as on the measures taken on the basis of audit findings. The year 2011 was the first full year under the newly appointed management. As a result, 2011 was a year of renewal for the institution in practically every respect; a new strategy was defined, the new Act on the State Audit Office of Hungary (SAO Act) entered into effect, a new organisation was built and new challenges were faced.

Processes and changes launched on the basis of the strategy

The elaboration of the practical implementation of the medium-term institutional strategy approved at the end of 2010 was one of our priority tasks in 2011. The SAO's mission – namely to promote transparency and regularity of public finances through value-creating audits performed on a solid professional basis, thus contributing to 'good governance' – can only be effectively implemented by an organisation that enjoys the confidence of citizens as well as professional prestige and respect.

The measures of recent years – the restructuring of the organisation, the revision of the internal regulatory system, audit topic selection based on risk assessment, the introduction of rolling planning, the improvement of the preparation and quality of audits with multi-tier assessments, competency-based distribution of human resources, methodological renewal and active communication – were taken in the interest of and served the accomplishment of the above. The ongoing processes and developments necessitated a change of approach in many respects; foreseeably results will in part be apparent immediately and in part in the medium term.

The new SAO Act

The creation of the new SAO Act heralded a new era for the organisation. The Act was born of the experience of more than 20 years of operation as a Supreme Audit Institution (SAI). Its provisions have been determined in line with the internationally accepted principles and practice of government auditing as well as the recommendations of international organisations.

The new act brought significant renewal in three areas, namely the areas of SAO mandates, the safeguards of its independence and transparency. The objective of the legislator was to make the work of auditors more effective, i.e. for auditors to be able to act more efficiently than before in the interest of protecting taxpayer funds and assets. The Act retains the 'audit office' type character of the SAO; however, the new provisions, in contrast to the previous, more permissive regulations, prescribe specific actions and tight deadlines. The stronger mandates are in place to make sure audits do not remain without consequences.

Pursuant to the new SAO Act – depending on the weight of audit findings – stricter requirements apply to the obligations and responsibilities of the audited entity. While in the past it was up to the audited entity to decide whether or not to prepare an action plan to correct the deficiencies identified, the provisions of the new Act stipulate that as an obligation.

As soon as the provision enters into force, the SAO will review the action plans forwarded, assess whether they are suitable to rectify the indicated deficiencies and, if necessary, send them back for completion. Taking the above into account, it will assess whether a follow-up audit is necessary, and it will decide upon the way and depth of the implementation thereof.

Simplified organisation, more efficient work

Our renewed obligations and mandates can only be performed at a suitable level if there is an organisation in place adapted to their implementation. Our main organisational development objective was to set up an optimal organisational structure in line with the tasks to be performed. The accomplishment of this objective required personnel and organisational changes. We made the operation of the organisation more efficient by having fewer organisational units as well as by merging certain units. All this was achieved by harmonising the functions and contents between the various organisational units.

The transformation served to ensure effective and efficient work as well as a focus on performance. At the same time, we improved the quality of our core activity and the system's external and internal ability to react; we developed project-centred work, introduced a control and monitoring system to track internal processes, and we continue to develop and maintain our professional knowledge.

In contrast to the former hierarchical system, the SAO has become an organisation that is flexible, creates added value and is based on systematic processes. This result-based renewal could allow the institution to build and develop on a continuous basis and at the same time meet the challenges of a constantly changing legal and economic environment.

Communication of the results of the SAO's work

Our activity can only be accomplished in the future if we cooperate more closely with the National Assembly and the organisations capable of enforcing our audit findings. Moreover, we strive to not only point out the shortcomings of the auditees, calling them to account, but also to provide assistance to those who manage public funds and public property. In conveying our audit results and values, we engage in primary, moderate and active communication, which includes publishing reports that are easy-to-understand for users.

We strive for more intense contact and more efficient communication with the National Assembly. Our objective is for the legislature to discuss and utilise as many of our reports as possible, through the widespread information of Members of Parliament on several forums and by ensuring a more intense presence in parliamentary committees.

Tasks related to the Fiscal Council

While in 2011 the Fiscal Council (FC) only had rights to provide opinions, as of 2012, it also has veto rights in connection with the drafting of the Act on the Budget. The activities of the President of the SAO performed in the work of the FC do not affect the tasks stipulated in the SAO Act. With respect to the fact that the FC has no separate organisation, in 2011 the staff of the SAO and the Research Institute of the SAO supported the foundation of the FC's opinion with an analysis each.

The impact of our international presence on our professional work

With respect to our international relations, we strive to establish organisational operation that on the one hand is able to build on the experience of others, and on the other hand is also able to learn. These relations, as well as the undertaking of an active international role and cooperation with the European Court of Auditors and SAIs of neighbouring countries, ensure the transfer of knowledge. The experience gained in this way is increasingly integrated into our audit work.

Social responsibility, trainee programme and financial culture

In terms of our work, publicity is a priority issue. Our reports, studies, audit manual, guides as well as the publications of our colleagues are all publicly available to all and can be downloaded from our website. We view this publicity as a value to be preserved as it helps us to improve efficiency and utilise our findings and recommendations.

We consider it one of the highest priorities to promote awareness of financial audit work and spread audit culture among recently graduated economists, lawyers and experts in financial administration as they are the auditors of the future. In the interest of the above, we have recently launched a trainee programme available to fresh graduates with specialised degrees. Successful applicants will have the opportunity to become familiar with the main aspects of audit activity, and will have the chance to gain practical experience by participating in actual audit assignments. They will be able to effectively utilise the knowledge they have acquired in practically all fields of economics and finance.

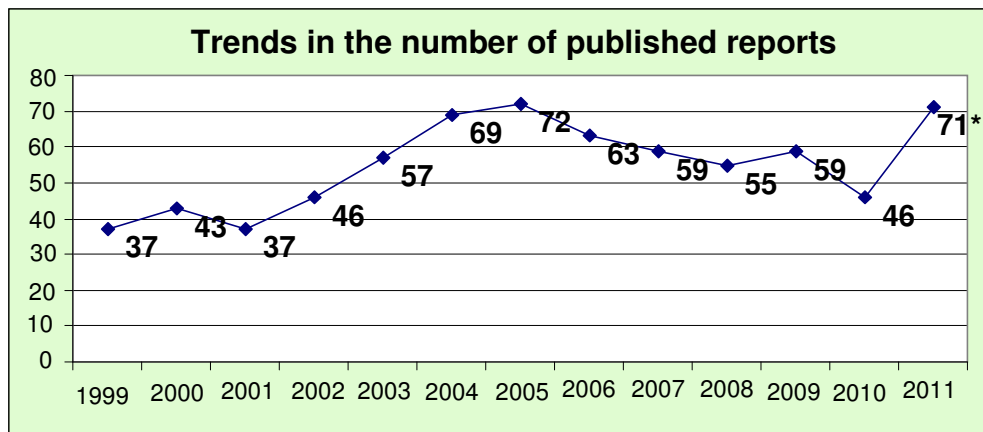
By developing financial culture, we are able to facilitate conscious and responsible decision-making in the field of finances and public finances; therefore, beyond our audit activities, we are also supporting the dissemination of financial culture as part of our corporate social responsibility. Relying on our extensive network of scientific contacts, we are examining the financial awareness, attitudes and behaviour of students of higher education and are also supporting the improvement of the financial literacy of secondary education students.

1. Professional duties and achievements

1.1. Overview of the implementation of the annual audit plan

The SAO carried out its audit activities on the basis of the audit plan approved by the President also in 2011. Parallel to the elaboration of the new medium-term strategy of the institution, and in contrast to earlier practice, the annual audit plan was compiled during a public, bottom-up planning process. The audit topics to be included in the plan – taking into account statutory obligations to be performed at required frequency – were selected as a result of multi-tier assessments.

The 2011 audit plan included a total of 56 topics. The number of SAO reports scheduled to be published in the subject year could not be precisely determined owing to the selection through a new type of sampling applied to the audit of the financial management system of local governments. Compared to the previous year, the number of reports on audits related to local governments more than doubled.



* In 2011, the SAO published two summary reports: 'Report on the Activities of the State Audit Office of Hungary in 2010' and 'Summary of Audit Reports on the Financial Management and Control of EU Funds in Hungary in 2010'.

During the year, no new assignments were added to the audit plan, and the performance audits on the 2011 financial management of the Hungarian News Agency Corp. (MTI) ¹ and on public education task performance and financing ² were cancelled.

Due to the change of the legal framework, we were forced to rethink three audit assignments during the year, which resulted in the performance of assignments being carried over to other years.

¹ With the repeal of Act CXXVII of 1996 on the National News Agency as of 1 January 2011, the former annual audit assignment of the SAO was terminated. Act CLXXXV of 2010 on Media Services and Mass Media does not stipulate an obligatory annual audit to be performed by SAO.

² The amendment of the public education act, the development of the teacher career model concept and the determination of the related financing system all commenced at the beginning of 2011. As part of the transformation of public administration, the re-regulation of the scopes of duty and authorities of local governments started, which impacts the realignment of scopes of duty and authorities in secondary education. Within the regulation of public education, due to the acceleration of the legislative process, the performance of the audit scheduled for 2011 became inopportune and was thus cancelled.

The assignments in question were: the ‘Performance audit on the task performance of local government associations and their financing’, the ‘Performance audit on the utilisation of the funds provided for the operation of hospital care’ and the ‘Performance audit on the efficiency and effectiveness of the subsidy scheme of public employment and employment-oriented training programmes’.

Considerable resources were committed to the compulsory audit of the final accounts; at the same time, however, the audit of the financial management of local governments with a renewed content is also a priority strategic task.

Many of our audits were targeted at areas affecting large segments of the population, for instance the respective audits of the management system and operation of the educational and cultural sector, the higher education infrastructure development programme, the budgetary subsidies to non-profit organisations participating in public education, the operation and financial framework of general medical practice services and the evaluation of the system for the control of occupational health and safety.

In 2011, we launched several audits to evaluate the utilisation of funds spent on tasks financed from multiple sources as well as the coordination of decisions and objectives. These audits, for instance, covered defence systems related to natural disasters, the utilisation of the vocational training contribution, the creation and preservation of jobs funded from national and EU sources and the development grant scheme of local governments.

Our reports on the audit of public foundations set up by the Government as well as on the impact of the operation of and support of the National Civil Fund were aimed at facilitating the utilisation of public funds moved outside public finances for valuable purposes.

1.2. Results of certain audits

The impact of the operation and support of the National Civil Fund (NCF)

In our report, we pointed out that the NCF’s system of regulations and institutions as well as its control over the distribution and utilisation of subsidies failed to ensure the effective development of social and civil relations and did not facilitate the more efficient performance of government and local government public tasks. We criticised the NCF for its fragmented organisation which was characterised by division of tasks without the assignment of responsibilities as well as by coordination deficiencies, while no criteria were set to be applied during the assessment of the achievement of support objectives in terms of professional and efficiency aspects. Of the civil organisations audited on-site, on average during the period under review, every sixth organisation covered 90% of its public interest activities from NCF funding, which does not provide guarantees for the continuous performance of tasks.

With respect to civil organisations audited on-site, our audits established total discrepancies in the amount of HUF 19,549 thousand – resulting from fund utilisation that was improperly documented and deviated from the manner stipulated by contracts or law – which could be traced back to regulatory and control deficiencies. We encountered a number of irregularities – beyond the quantified inadequacies and disorders – in the financial management of these civil organisations.

In 2011, the Minister of Public Administration and Justice submitted the bill on the freedom of association, charitable status and the operation and support of civil organisations to the National Assembly. During the creation of this Act, the findings of our report on the operation of and support of the National Civil Fund were utilised.

Budgetary subsidies to non-profit organisations participating in public education³

The audit on budgetary subsidies to non-profit organisations participating in public education was justified by the fact that non-profit proprietors had an increasingly significant role nationwide within the system of public education task sharing. In our report we disapproved of the fact that during planning, the Minister responsible for education did not formulate a medium-term development plan for the years 2007-2010, furthermore, that at the county planning level no measurable objectives or precise tasks were defined in connection with non-profit proprietors.

Four-fifths of the public education tasks of the 30 audited non-profit organisations were financed from budgetary resources and one fifth with funds from outside of public finances. Our audit concluded that the majority of auditees failed to fully perform the proprietary management responsibilities stipulated by law, which deficiency was not revealed by external audits.

The 2009-2010 task performance and property management of public foundations set up by the Government

Our report on the audit on the regularity and effectiveness of the 2009–2010 task performance and property management of public foundations set up by the Government confirmed a fact which has frequently been indicated in the past, namely that the economic intention behind the establishment of public foundations, i.e. to involve funds from the civil sector in the financing of public tasks, was not realised. Their firm operation depended on the amount and regularity of subsidies from the central budget. The subsidies provided to perform the tasks in accordance with the said objective were utilised in line with the deeds of foundation and subsidy contracts of the public foundations.

Through re-granted funds and carrying out tasks through their own and independent institutions, they contributed to the performance of educational, social, cultural and research activities, the organisation of national and regional events as well as the strengthening of cross-border relations; however, during the audited period they failed to complete one third of the tasks designated in their deeds of foundation. We disapproved of the fact that the deeds of foundation failed to uniformly regulate the content and amount of operating costs.

The operation of the National Bank of Hungary in 2010

The 2010 operation of the National Bank of Hungary resulted in a deficit of HUF 41.6 billion after operation which was covered by the accumulated profit reserve; therefore in 2011 the budget was not subject to payment obligations. The Bank's 2010 operation as well as its management, decision-making and control systems complied with statutory provisions; at the same time, however, the provisions of the Act on Public Procurement and the Bank's internal regulations were not always adhered to.

In spite of our earlier recommendation, in its 2010 statements – in the case of personnel-related expenditures – the Bank, as a result of efficiency improvement measures, accounted for savings greater than the actual reduction of costs realised at bank-level. The average monthly gross wage of its employees in 2010 exceeded more than three times that of employees in the national economy. It did not amend its wage policy objectives, not even on account of the financial-economic crisis. We considered it unjustified that the Bank employs one person as a communications advisor with a salary of HUF 1.8 million gross per month, while also operating a 24 person communications department.

³ Publication of the report was carried over to the beginning of 2012.

As a result of our report, the respective sections of the Act on the National Bank of Hungary related to the transfer of corporate decision-making powers were amended as per our recommendation.

The accounting for funds spent on the 2010 parliamentary elections

Based on the mandate provided by the Act on Election Procedures, the SAO ex officio audited the utilisation of state and other funds spent on parliamentary elections among those obtaining a parliamentary mandate at the 2010 general parliamentary elections. With respect to the conditions and circumstances of auditing, the provisions of the Act in force since 1998 did not ensure the necessary conditions for the full transparency of the origin and utilisation of campaign funds for the fourth parliamentary election cycle, either. Due to the deficiencies of the legislative environment, the audit powers of the SAO remained limited, and its audit mandate extended only to the examination of the statements of nominating organisations.

Besides the utilisation of the on-site audit's results – beyond recommendations made to nominating organisations and independent candidates – we also recommended that the Government initiate the amendment of the Act on Election Procedures – taking the recommendations contained in previous reports of the State Audit Office of Hungary into account – in the interest of making campaign financing transparent and auditable.

The 2008-2009 financial management of FIDESZ – Hungarian Civic Union, and the 2009-2010 financial management of Jobbik - The Movement for a Better Hungary, LMP (Politics Can be Different) and the Hungarian Socialist Party⁴

As part of periodic audits of political parties, we have completed audits on the legality of the financial management of four parties. Our findings once again confirmed that in order to strengthen the enforcement of transparency in party financing and the accountability of political parties, it was necessary to resolve the conflicts affecting parties' recording and reporting systems, which have subsisted for a decade between the Act on Political Parties and the Act on Accounting.

The 2008-2009 financial management of the Foundation for a Civic Hungary and the 2009-2010 financial management of the Táncsics Mihály Foundation⁵

Of the party foundations eligible for budgetary subsidies, audits were carried out on the legality of the financial management of the above two party foundations. In the audited period, the boards of trustees operated in compliance with the relevant laws and in accordance with the provisions of their deeds of foundation. The support provided by the boards and the programmes implemented within their own organisational framework were consistent with the objectives defined in the deeds of foundation. In the interest of regular and responsible financial management, we called upon the President of the board of trustees of the Táncsics Mihály Foundation to amend the system of accounts as well as the book-keeping contract.

Implementation of the National Development Plan

For the 2004-2006 budget period, the National Development Plan (NDP) represented HUF 700 billion of EU funds (including also national co-financing) for the country. Using the HUF 700 billion available, approximately 20,000 projects were implemented. The relevance of the audit was underlined by the fact that in 2010 the closing of National Development Plan programmes and the settlement with the European Commission commenced.

⁴ Publication of three reports was carried over to the beginning of 2012.

⁵ Publication of one report was carried over to the beginning of 2012.

Hungary was able to utilise nearly the entire (99%) HUF 700 billion development envelope. The country's convergence to the EU average was, however, moderate in terms of GDP per capita, representing an increase of 1 percentage point from 2004 to 2009. Hungary converged to the EU development level in environmental protection, health-related and certain education-related investments, as well as in the field of rural development. The utilisation of grants helped the development of target areas, but due to the magnitude of funds and fragmented utilisation, we have only achieved partial results (e.g. in the fields of waste water management, road reconstructions and modernisations).

According to the final reports of the programmes, the total number of new and preserved jobs was about 34,000; however, according to audit experience, the job preservation effect of the programmes was more dominant than their job creation effect. We found unjustified payments in a value of HUF 117.5 million (in which cases we initiated criminal proceedings) and revealed projects struggling with utilisation problems (three projects, approximately HUF 8 billion); furthermore, we called attention to and recommended actions to resolve sustainability risks.

The higher education infrastructure development programme

The medium-term sector objective of the programme was to establish the infrastructural conditions required for the prompt accession to the European Higher Education Area. As a short-term fiscal objective the eligibility of development costs outside of public finances was indicated as a priority reason for implementing the programme in a PPP scheme. There are no legal provisions on risk sharing. In the case of certain projects, by concluding operating background agreements, private partners shifted availability risk to the public sector.

For the term of the projects, government contracting parties pay rental service fee to private partners for the use of facilities, 50% of which cost has been assumed by the Ministry responsible for technical supervision. Between 2006-2010, the contribution to the rent paid within the education infrastructure burdened the budget of the Ministry responsible for education to the tune of HUF 14.9 billion. The 20-year term programme is expected to represent a further commitment of HUF 96.6 billion on the chapters level. We evaluated the substantiation of programmes involving significant public fund utilisation and long-term commitments and pointed out the utilisation of the capacities of facilities as well as the risks endangering project financing.

The operation and financial framework of general medical practice services

Due to the fiscal and social significance of general practitioner activity, we carried out audits at 475 local governments and conducted questionnaire surveys with close to 6 000 general medical practitioners. In 2010, the financing of general medical practitioner activity amounted to nearly HUF 70 billion. In our report, we pointed out that besides deteriorating conditions, the operation of the general medical practitioner system is also characterised by a stagnating quality of care. Instead of convergence to the EU average, the financing difficulties, ageing human capacity and the increasing number of vacant practices all project a risk to the sustainability of achieved results. In spite of emphasising the reinforcement of primary care, those managing the sector failed to prepare a long or medium-term development plan to renew the structure of general medical practice services. We have shown that the sale of practice rights is unresolved, hinders the retirement and mobility of general practitioners and is in part responsible for the increase in the number of vacant districts.

The support provided by local governments to general medical practitioner care is inconsistent; some help beyond their means, while others provide no assistance at all. General medical practitioner contracts vary from settlement to settlement. We have also pointed out that morbidity and mortality indicators differ considerably depending on how the settlement in

question adapts to the GP system (in settlements with fewer residents, morbidity and mortality indicators are worse). The system of financing does not encourage prevention.

The contents of the report on the performance audit on the operation and financial framework of general medical practitioner services contributed to the fact that as of 1 January 2012, the National Assembly amended the practice rights in Act II of 2000 on Independent Medical Practice and obliged local governments to conclude task performance agreements for general medical practitioner services for terms of at least five years. The 2012 Act on the Budget makes a larger budget subsidy available for the quality patient care provided by general medical practitioners than before. The National Assembly's Committee on Health Care is planning to discuss the report which will also serve as a 'blueprint' to redefine the tasks of primary care provision.

The execution of the budget of the Republic of Hungary for the year 2010

Upon the assessment of the legality and reliability of the bill on the execution of the 2010 budget, we concluded that as a result of the measures taken in the second half of the year, the 2010 budget deficit was in line with plans. In the opinion on the 2010 budget appropriation bill, we had already called attention to the macroeconomic risks and the uncertainty of realising tax revenues which warnings were subsequently proven by the HUF 235.8 billion shortfall in tax revenues.

Within the data contained in the bill on the execution of the budget, the performance data of the expenditure and revenue appropriations of the national accounts proved to be reliable with the exception of revenues and expenditures relating to state property, which are qualified with limitations, as well as housing subsidies.

In the case of chapters, we carried out 39 financial regularity audits, based on which we rated the reliability of 50.3% of the total expenditures of the chapters of the central budget. Of the 27 statements given unqualified opinions among those audited, we attached an emphasis of matter paragraph to 15 statements. Ten statements were reliable to a limited extent and two received adverse opinions. The change in the structure and the impacts thereof also influenced the reliability of the statements. In case of financial statements given a qualified opinion, some of the detected errors are also attributable to deficiencies in regulations related to the change in the structure, record-keeping and clearance of accounts.

Regarding the reliability of the funds' data on the revenue collected by the state tax authority, we issued an unqualified opinion for all funds.

In our report, we primarily submitted proposals in order to bolster the reliability of final accounts data and the transparency of spending, and to prevent typical errors and deficiencies that have been recurring for years. Our recommendations primarily featured tasks related to the management of reserves, the system of healthcare financing, budgetary relations concerning the European Union, the management of state property, the disbursement of housing subsidies, the Budapest Metro Line 4 project and improving the efficiency of management, organisation, regulation and auditing.

Opinion on the budget bill of the Republic of Hungary for 2012

When formulating an opinion on Hungary's 2012 budget appropriation bill, the SAO opinion focused on the issues of legality and substantiation. During the period of on-site audit, there was a lack of basic planning documents, and the bills required for the substantiation of appropriations as well as the impacts of expenditures on subsequent years were not available either. We qualified 87% of direct expenditure appropriations as substantiated. Forty-three per cent of

expenditure appropriations related to state property were not substantiated or could not be assessed.

Compared to the previous rate of 33.5%, the ratio of tax revenues we had no means to provide an opinion upon dropped to 27%. We qualified 63.3% of tax revenues as feasible, in contrast to 45.7% in 2011. We indicated high risk in the case of 6.8% and medium risk in the case of 2.9% of revenues. The seven-point package of measures included in the Széll Kálmán Plan planned savings of HUF 550.0 billion for 2012. Due to lack of supporting documents, we were unable to provide even a partial opinion on savings amounting to HUF 388.0 billion.

The submitted bill contained several changes concerning the revenues and expenditures of the chapters, regarding the content, reasons and substantiation of which the SAO did not have any information. When the Opinion was compiled, the new cardinal laws affecting local governments and regulating the performance of public tasks or the amendments to the professional pieces of legislation were still unknown. Therefore, it was not possible to assess their consistency with appropriations.

In the case of separated state funds, the objective and the regulatory background of the Start Work Programme (featured in the Labour Market Fund budget as a new appropriation) were still unknown; therefore, we were unable to qualify the feasibility of the programme. In the case of the Innovation Fund for Research and Technology, we concluded that with the planned budgetary subsidy, the 'guarantee rule' set forth in the Act, according to which the state contributes to the resources of the Fund with an amount corresponding to the innovation contribution paid, cannot be realised. The budgets of social security funds contained significant changes and changes in profile; for instance, disability and accident disability pensions under the age limit as well as the rehabilitation allowance appropriations had been moved from the budget of the Pension Insurance Fund to that of the Health Insurance Fund.

We also indicated that a comprehensive definition of the requirements concerning the contents and the form of the budget appropriation bill would allow an overview of information that would substantially contribute to the debate of the budget appropriation bill by the National Assembly.

Following the submission of our opinion on the 2012 budget bill on 14 October, the National Assembly and the Government amended the bill taking a number of our recommendations into account. In his introductory speech given at the end of October, the President of the SAO was able to report that the Government had remedied most of the deficiencies and had also provided the missing data. At the proposal of the Committee on Audit Office and Budget, the National Assembly approved a recommendation that blocked a great portion of reserves for a period of nine months, thereby strengthening budgetary discipline as per the SAO's recommendation.

The utilisation of funds used for the convergence of regions

Reducing significant territorial disparities between developed and less developed regions had already been defined by the National Assembly as a priority objective of regional development and regional planning back in 1996. By means of EU funds, the implementation thereof was given a chance greater than ever before. We have concluded that neither the central and local decisions made in the interest of the convergence of regions, nor the established regulatory and funding system contributed effectively to the accomplishment of the objectives set.

No significant reduction was observed in economic and social differences; this would have required a more efficient utilisation of funds, as well as a more coordinated and emphatic application of other – non-financial – tools of regional development. We only observed partial results in the field of infrastructural development. The audit identified the deficiencies of the implementation of the provisions of the Act on Regional Development and Regional Planning

regarding regulation and reporting, as well as the HUF 29.8 billion margin that cannot be utilised in the current most disadvantageous rules of procedure. We called attention to setting convergence goals, to ensuring the consistency of goals and tools as well as to the deficiencies of the monitoring system.

In accordance with the recommendations of the SAO, during the amendment of the Act on Regional Development and Regional Planning, the Government was authorised to define in a decree the order of the utilisation of EU grants as well as the detailed rules of the utilisation of funds. The Act obliged the Minister responsible to review the classification of beneficiary regions every four years, and if necessary, to submit a proposal for amendment.

The expediency of the utilisation of the vocational training contribution⁶

The audit revealed that the utilisation of vocational training contributions is neither efficient, nor effective, which can be traced back to the deficiencies of regulation and the implementation of audits. In the audited period – between 2007-2010 – of the roughly HUF 270 billion available only one third was spent on the organisation of practical training, i.e. the accomplishment of vocational objectives; while one eighth was spent on the accomplishment of non-vocational objectives and operating expenditures. Regarding more than half of the funds, it was impossible to determine what ratio was spent on accomplishing vocational training and vocational training-development goals.

The bill on vocational training contributions was passed by the National Assembly in November. According to the general explanation of the bill, the formulation of the new Act was in part necessitated by the findings of the SAO audit that was still in progress at the time. The provisions of the Act were formulated in line with SAO recommendations.

The financial management of the Hungarian News Agency in 2010

The annual audit duties regarding the economic activity of the Hungarian News Agency were stipulated by law. The audit was further justified by the significant change that occurred in the operating environment of the Agency in 2010, which resulted in the transformation of its organisational form, ownership structure and control system.

As a result of the audit, we called attention to the fact that the organisational form of the operation of the Media Support and Asset Management Fund (MSAMF) had not been defined. The subsidies channelled through MSAMF to public service media providers (e.g. the Hungarian News Agency Corp.) for purposes of task performance and broadcasting – similarly to the period before the organisational restructuring – are provided without specific indication of the rate of state subsidies for public service tasks.

Motorway development projects completed in 2009 and 2010

(M6 motorway Dunaújváros-Bóly section, M60 motorway Bóly-Pécs section, M31 Gödöllő connection, three sections of the M43 motorway)

During the audit we found that the technical-economic preparation of these motorway development projects was not efficient. In the case of the M6 motorway section, based on planned and measured traffic data, the cost benefit of the PPP scheme was not proven compared to public investment; furthermore, traffic safety risks arose on the given motorway section.

⁶ Publication of the report was carried over to the beginning of 2012.

The degree of cost estimate inaccuracy and schedule unreliability was unacceptable in all phases of investment processes. The resource planning of the projects was not coordinated with annual budget planning, the multi-annual subsidy contracts of EU projects or the post-financing nature of EU subsidies. With the construction of a 2x2 lane motorway, a technical solution differing from that stipulated by law was implemented on the Maroslele-Makó section. State interests related to the efficient utilisation of public funds were relegated to the background in the course of local government and regulatory decisions as well as archaeological excavations.

The management system and operation of the educational and cultural sector

During our audit, we assessed whether the control and operation systems of education and cultural sectors ensured expedient and effective task performance in the 2006-2010 period. We found that no medium and long-term professional concepts or strategies were developed for the two sectors. The tasks and the order of their performance were contained in the instructions of the Ministry of Education and Culture which, however, did not specify the contents of technical supervision powers, i.e. clear scopes of responsibility. As a result, implementation was sluggish and prolonged, which in turn decreased the effectiveness of technical supervision and task performance.

Following the 2006 reorganisation of the institutional system of the central budget, the performance of professional duties became more organised and transparent; however, the Ministry of Education and Culture failed to assess whether the efficiency and effectiveness of task performance also improved as a result of the measures. Though the Ministry did formally perform its tasks derived from the exercising of ownership and founder's rights, in terms of content it failed to develop an effective and efficient system for the quality task performance and operation of business associations and public foundations.

Systems set up to prevent and avert natural disasters and to eliminate their consequences

In relation to the emergency situation caused by severe flooding and excess surface water in 2009-2010, the main task of the audit was to assess the effectiveness of the protection against such natural disasters. We called attention to the strengths (e.g. centralised organisation) and weaknesses (e.g. inconsistencies of regulation) of the system, as well as the importance of the required regulatory, organisational, operating and financing transformations and adaptation to the international system of regulations. We pointed out that efficient protection requires – at both the national and international level – communication, coordination and cooperation between players as well as the more predictable involvement of charity organisations, an involvement that is based on pre-determined principles.

As a result of the recommendations of our report related to preventing natural disasters, professional disaster management organs now have an increased role in controlling protection works in settlements, and mayors' work is now assisted by public safety administrators. Tasks are assigned to social and charity organisations voluntarily applying in compliance with their sizes as well, the scopes of authority with regard to their involvement in protection activities have been defined, and the system of cost reimbursement has been developed.

The financial management of the Hungarian Post Co. Ltd.

Through our report, we directed attention on the 1 January 2013 liberalisation of the postal market, the significance of postal market strategy, and the necessity of strategy and regulatory apparatus for market players to adapt to the liberalisation.

We have concluded that the strategic role of Hungarian Post Co. Ltd. within state property was unclear, and has been subordinate to the short-term budgetary approach. We recommended the

speedy preparation of the postal market strategy and related regulations, the alignment of the asset utilisation and postal market strategies as well as the definition of the strategic vision of Hungarian Post Co. Ltd., and on the basis of the above, the review of the medium-term business plans, results and investments of the company. With respect to the revealed deficiencies, we considered it necessary that in a number of areas the control system of the Hungarian Post be strengthened.

The system for the control of occupational health and safety

Curbing black economy and ensuring the physical safety and health protection of workers is a priority objective of society, and the violation of occupational health and safety regulations has serious consequences for employees, employers and society alike. In our report, we called attention to the fact that in spite of the increase in the number of labour supervisors, the threat to economic entities did not increase and neither did supervisory presence; furthermore, the number of illegal employment cases revealed dropped sharply between 2007-2010.

In the interest of curbing black economy and corruption risks, we formulated recommendations to develop a medium-term strategy of audits by the authorities, to create a selection system that manages audit risks (including corruption risks), and to define audit performance required of supervisors.

Based on the recommendations of the report, the Minister of National Economy, in accordance with legal provisions, defined the directives of labour audits and published them in the Official Journal of the Ministry of National Economy

The impacts of measures taken against air pollution and in the field of climate policy

The reduction of air polluting toxic substances and climate change are both global problems. This is why we are assessing the accomplishment of the objectives and revealing the limits of the reduction of air pollution and climate protection as part of the performance audit on the impacts of measures taken against air pollution and in the field of climate policy.

We have concluded that in essence Hungary has fulfilled its international obligations undertaken in the field of reduction of air pollution and climate protection, and has met the requirements laid down in EU directives. As a result of favourable economic processes and developments, emissions of air pollutants and greenhouse gases affecting climate change, particularly carbon dioxide, have overall decreased. It is, however, a warning sign that traffic and transport-related dust and carbon dioxide emissions have increased.

We have pointed out the deficiencies of indicators and measurements required to assess the measures, as well as the necessity of reinforcing the activities of the authorities. Our report found that Hungary has failed to comprehensively exploit the financial advantages of the international Emissions Trading System established on the basis of the Kyoto Protocol, as it has sold only approximately 10% of the emission units for trade. As a result, only limited funds were available as part of the Green Investment System for purposes of energy saving and emission reduction.

Activities related to enforcing ownership rights over state property in 2010

The amendment of the State Property Act regulating the financial management of state property redefined the task of state property management and the practice of overall ownership rights and obligations over state property. The organisational system of the management of state property has changed and as a result so have the persons managing the various property groups. Besides the Hungarian State Holding Company (HSHC), ownership rights are also exercised by the National Land Fund Management Organisation (NLFMO) and the Hungarian Development Bank. In the various fields, the State Property Act, the new National Land Fund Act and the Act

on the Hungarian Development Bank do not clearly regulate the tasks affecting the exercise of ownership rights.

The Hungarian State Holding Company's task pursuant to the State Property Act regarding the inventory of state property and related data supply cannot be fully implemented because the pieces of legislation applicable to the NLFMO do not stipulate any data supply obligations for HSHC regarding state property. As of 2007, the capitalisation of high-value public road and railway development projects stopped; therefore, these did not appear in the statements on state property.

The starting point for the transparent and efficient financial management of state property is a reliable, true and uniform inventory of assets that HSHC wishes to ensure by introducing a new inventory system. Working papers were prepared in connection with this; however, no detailed and approved professional concept was created by mid-2011.

Audit on the financial situation and financial management system of local governments in 2011

In auditing local governments, the SAO strategy places emphasis on revealing financial risks⁷. Risk analysis found the financial equilibrium of the local governments of the counties to be most endangered and hence launched audits at all such local governments. From the aspect of the local government system as a whole and the provision of public services to the population, audit experience focused on the analysis of the financial situation of mid-level local governments. The audits, therefore, continued comprehensively at towns with county status. The assessment of the financial situation was also a priority objective in the audit of the Municipality of Budapest that was conducted parallel to the above audits.

We have also observed the danger of indebtedness in the case of local governments of towns. This is why we reviewed the financial equilibrium situation of 304 towns using certificates and went on to select 63 local governments through representative sampling where we conducted on-site audits. We published our summary report on the audit on the financial situation of various local government levels in the first quarter of 2012.

The financial situation of local governments deteriorated between 2007-2010, and the financial equilibrium indicators changed unfavourably both jointly and individually for the various types of local governments. At the local governments of counties the unfavourable changes in the central regulation of funds contributed to the disturbance of the financial equilibrium, while in the case of local governments of towns and towns with county status it was caused by the drop in revenues from central budgetary relations, the increase of current expenditures at a rate that exceeded that of current revenues and lastly, as of 2010, by the increase in expenditures for purposes of debt repayment. The financial situation of towns was negatively impacted by the intensive investment activity related to EU tenders.

The funds required for development and in part for operation were acquired through loans and increasingly by issuing bonds. With the interest and exchange rate conditions prevailing in 2007-2008, foreign currency-denominated bond issuance offered a better solution than long-term loans. Eighty-five per cent of the bond and loan repayment obligations of local governments outstanding at the end of 2010 will have to be settled in the period starting in 2014, a significant risk in light of the current volatility of exchange and interest rates.

⁷ During the audit of the financial situation of local governments in 2011, we employed a new method, the CLF method to assess the financial situation, risks and debt management of these local governments. The CLF method consistently distinguishes between revenues and expenditures of the budget and their balances as either current (direct operating items related to the duties of local governments) or capital (related to assets).

Using our audit experience, we wished to contribute to the efforts aiming at the reorganisation of the system of local governments and the financing thereof. This is why in his letter dated November 2011 the President of the SAO, even before the audits were completed, directed the Government's attention to the fact that rules and regulations should be created enforcing the responsibility of local governments in the interest of establishing and maintaining financial equilibrium, as well as to the fact that duties and powers should be revised and compulsory state and local government tasks, as well as financing liability should be clearly separate.

A) The 2011 audit of the financial situation of the local governments of counties (19 reports)

The concurrent audits conducted at 19 county local governments concluded that the drop in public contributions and grants to two thirds of the previous amount during the audited period were not proportionate to the changes in compulsory tasks. As a result of legal amendments and the drop in real estate turnover, duty revenues decreased approximately by half.

The large majority of county local governments were unable to restore the collapsed financial equilibrium through revenue increasing and expenditure reducing measures. Due to bonds issued and loans borrowed, the liabilities of local governments to financial institutions doubled in the audited period. Thirty per cent of the debt portfolio financed current expenditures, nearly half of which were long-term liabilities. In terms of operation, the constant presence of arrears to suppliers, within which overdue debts of hospitals were dominant, was a high-risk factor. Resources for investments in progress were primarily ensured by EU grants and in part from the reserves accumulated by bond issuances.

The SAO conducted the on-site audit back in the summer of 2011 and formulated its findings and recommendations by taking the legal framework effective at the time into account. As of 1 January 2012, the new regulation entered into force which significantly narrowed the tasks and assets of local governments of counties, at which point the state assumed the liabilities of these local governments.

B) The 2011 audit of the financial situation of the local governments of towns with county status (23 reports)

The concurrent audits conducted at the 23 local governments of towns with county status showed that the performance of compulsory tasks was supported by funds from central budgetary relations as well as duty revenues to a decreasing extent. As a result of the economic crisis, the previously dynamic growth of local business tax revenues decelerated, and in turn the ability of operating income to serve as a source of investment decreased.

In terms of operation, there was a high risk of not being able to pay the increasing amount of overdue arrears to suppliers. Besides the financing risks of developments, uncertainty in the operation and maintenance of completed facilities was also considerable. Hidden debt originating from the wear and tear of equipment and delay in complying with replacement obligations is also considerable.

In the case of certain local governments, the financing of long-term liabilities represented a risk, primarily due to the exposure to exchange rates resulting from foreign currency liabilities. At least one third of local governments have pledged real properties that qualify as nominal assets (non-negotiable, or partially negotiable) in their loan agreements with banks in breach of the Act on Local Governments.

While analysing the financial risks related to the performance of the operating, investment, and most importantly the long-term liabilities of towns with county status to financial institutions, the SAO required nine towns to take immediate measures, eight local governments to employ

medium-term measures, and recommended maintaining financial equilibrium in the long term to six local governments.

C) 'Pilot' audits (4 reports)

Pilot audits were also launched in 2011 in order to conduct more comprehensive audits of the financial management system of local governments. Selection was based on risk analysis. In the course of these audits, in addition to assessing the financial position of the local governments, it was also an objective to assess the regularity of the asset management and the enforcement of shareholder's responsibility in business associations performing public tasks in majority local government ownership. Another objective was to gain practical experience for the continuation of local government audits.

Of the pilot audits four audit reports were drawn up in 2011, while an additional eight audit reports were published in April 2012.

The risk analyses conducted at audited local governments were confirmed by audit experience. The measures aimed at improving financial equilibrium were insufficient. We also had to point out the deficiencies of the establishment and operation of internal controls, which represented a risk to the implementation of asset management tasks. We were also forced to assess the enforcement of ownership as unsuccessful.

Analysis of the budgetary and financial equilibrium of the Municipality of Budapest

While the SAO conducted comprehensive audits of counties, towns with county status, districts of the capital city and towns every election cycle, the comprehensive audit of the Municipality of Budapest, which holds the most assets in the country, was not completed until 2011.

The audit revealed the risks of development: increasingly limited resources (the net operating income decreased), the disadvantageous nature of PPP schemes (in case of the Warehouses project, HUF 13.2 billion in unjustified commitments, HUF 9 billion in inexpedient collateral securities), the deficiencies of the operation of internal controls during budget planning as the controls failed to prevent or reveal significant deficiencies, and the incomplete performance of the disclosure obligation regarding data of public interest.

The audit called attention to the facts that the impact of measures increasing revenues and reducing expenditures is very slight; the computer room has considerable security and property protection deficiencies, and the financial-economic relations of the Municipality and its business associations (particularly the Budapest Transport Company) represent very high risk. We pointed out the inexpediency of the contractual settlement order in the case of public road maintenance tasks, the lack of on-site checks, as well as the significance of preserving the utilisation value of public roads (the value of the public road network is HUF 656 billion).

Revenues available for and shared by the Municipality of Budapest and the local governments of its districts in 2011⁸

The SAO is obligated by law to revise the resource distribution directive. The audit concluded that the directive – incorrectly – determined the funds available to the Municipality of Budapest as an amount HUF 379 million higher, while the funds available to the various districts were decreased with the same amount. The amount available for the shortage of operating expenditure funds was also taken into account at an amount that was HUF 600 million lower than necessary. In the absence of rules of procedures regarding the sharing of tourism revenues, the amounts

⁸ Publication of the report was carried over to the beginning of 2012.

available to the various district local governments could not be determined; therefore an amendment to the legal provision is required.

The financial management of the Budapest Public Transport Company⁹

The audit on the financial management of the Municipality of Budapest pointed out that the indebtedness of the Budapest Transport Company (its debt portfolio on 31 December 2010 was HUF 78 billion) represents significant risk in terms of the Municipality's financial equilibrium. The SAO did not have mandate to audit business associations owned by local governments. It was granted this mandate as of 1 January 2011 by virtue of a legal amendment.

The audit found that the Municipality of Budapest had not abided by its contractual payment obligation and had not paid the full consideration in exchange for the service ordered by it and performed by Budapest Transport Company (BTC). Instead, committees empowered to act as shareholders approved financing of the planned losses of the Budapest Transport Company with loans, loan renewals and various overdraft facilities. The committees did not inform the General Assembly of these decisions despite the fact that these deals represented risk and surplus interest costs – a total of HUF 41.4 billion – for the financial management of the Budapest Transport Company. The CEOs of the company also failed to enforce the rights under the agreement. Due to developments that were not implemented, the technical condition of the vehicle fleet constitutes a traffic safety hazard. A fundamental requirement of maintaining financial equilibrium is to generate revenue returns on BTC's investments, thus the repayment of loans could be ensured from these revenues.

The report's findings were swiftly utilised as at the beginning of 2012, the Municipality of Budapest provided considerable own resources for the operation of BTC and took SAO findings into account during negotiations with the Government as well.

The development grant scheme for local governments

In the course of our audit we assessed the effectiveness and efficiency of the contribution of the purely nationally funded development grant scheme available to local governments for the achievement of the development objectives defined by the National Assembly. We found that the requirement set out by the National Assembly with regard to the harmonisation of development grants was not upheld. Due to continuous changes in the tender application objectives and schemes the local governments were unable to count on these grants in their longer term plans.

Neither the results expected from the grants, nor the indicators that could be used to evaluate them had been defined. As a result, due to the lack of a standard monitoring system, the fulfilment of objectives was not evaluated. The Government Decree on the establishment of a monitoring system was published in 2010, but the information system ensuring the coordination of the grants is still lacking.

Local governments had primarily chosen to carry out investment projects to which grants were available, but more than two thirds of them did not take the long-term operating costs of these investments into consideration. One third of the local governments borrowed loans to finance the grants, as they are subsequently financed. Overall, the grant scheme was not efficient on account of it being multi-channelled, fragmented, divided and non-transparent.

⁹ Publication of the report was carried over to the beginning of 2012.

1.3. Legal activity supporting the audits and cooperation with the authorities

The Act on SAO instituted measures to facilitate the efficiency of the audits and the practical utilisation of the audit findings: an obligation to prepare an action plan in order to ensure that the recommendations can be enforced, and the concept of the warning letter.

The changes in the tasks required a change in approaches concerning legal activities. Taking the legal consequences of enforcing the recommendations into account, ensuring that the recommendations are legally supported and lawful, in addition to facilitating and checking the warning letters against the relevant formal and administrative compliance have become key tasks.

The Act on SAO has changed the logics applicable to the procedures started at external organizations in connection with public sector audits: Acting in accordance with the general mandate bestowed upon the SAO by virtue of Paragraph (5), Article 1 of the Act, the SAO does not necessarily have to report the entity in question; rather it can turn to the competent authority in order to clear up any issues of responsibility revealed, which it cannot evaluate using only its audit instruments, even during the on-site audit.

In order to facilitate criminal prosecution relating to irregular use of public funds, the SAO – on grounds of criminal offences against property (such as fraudulent or negligent misuse of funds) – brought criminal complaints in a total of four cases in 2011, in connection with the following audit topics:

- a) Establishment of a national LEADER centre, supporting the Hungarian LEADER Public Benefit Association
- b) Municipality of Budapest – Warehouse PPP
- c) Local government of the village of Gyöngyöspata
- d) Budapest Public Transport Company

According to the information available to us, based on the reports filed by the SAO in cases a) and b) a criminal investigation has been launched and is still in progress; in cases c) and d) the competent investigating authority has ordered an investigation, but in case c) closed the investigation due to a lack of evidence supporting the perpetration of a criminal offence. The Budapest Police Department transferred case d) to the competence of the National Office of Investigation based on the circumstances revealed during the hearing of witnesses leading to the establishment of a higher amount of presumed pecuniary losses inflicted upon the victim.

In 2011, the SAO used its prerogative to inform the competent Public Prosecutor's Office on two occasions.

The SAO provides considerable support to the activity of the authorities involved in criminal proceedings and efficient use of the required data by providing public access to its reports on its website and by fulfilling an increasing number (compared to previous years) of requests from authorities. The SAO has found that investigating authorities (police departments, public prosecutors, etc.) rely heavily on its audit reports in the discharge of their duties.

The SAO met its obligation of data supply for the 47 requests in the subject year by sending reply letters, and furthermore, in 34 cases by submitting documents containing facts brought to its knowledge in the course of the audits conducted.

In the subject year the SAO initiated two legal remedy procedures against the following contracting authorities on account of illegal disregard for the applicable rules on public procurement:

- a) Local government of the village of Gyöngyöspata
- b) Central Office for Administrative and Electronic Public Services

In its decree on case a) the Public Procurement Arbitration Board established the infringement of law and imposed a fine of HUF 100 000 on the offender.

2. Utilisation of the SAO's work

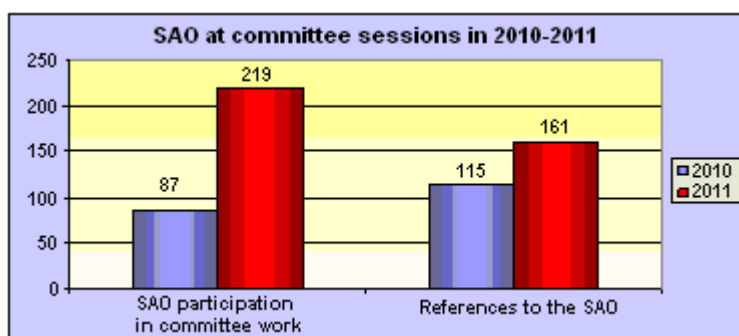
2.1. In cooperation with the National Assembly

The basic pre-requisites of the proper utilisation of our work are to ensure that our audit findings reach the MPs, that they are used as a point of reference for legislative work and are integrated into the new acts of legislation.



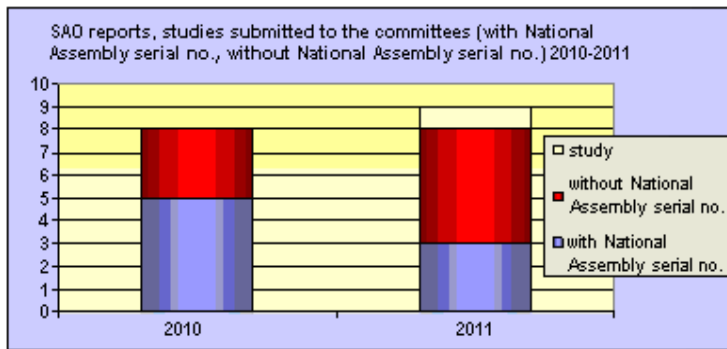
The National Assembly had an active year in 2011 with the number of papers submitted doubling. In 2010, of 5,570 papers 175 made mention of the SAO while the same figure in 2011 was 500 out of 10 thousand, meaning that citations involving the SAO increased not just in number, but in proportion as well.

Supporting the work of parliamentary committees



In 2011, the SAO staff took part in a total of 219 committee sessions and helped the committee's work with comments on more than 50 occasions. Our reports and findings were referenced at a total of 161 committee sessions.

In the interest of supporting the work of the MPs, we have prepared thematic summaries, background materials, among others, to the Spring and Autumn legislative programs, the debates on the cardinal laws – separately for the debate on the Act on Local Governments – the Széll Kálmán Plan and the topic discussed by the Temporary Committee on Innovation and Development.



In 2011, the committees and subcommittees discussed a total of eight reports and one study as a separate agenda item, of which five reports were not submitted pursuant to a relevant legal requirement, but were rather put on the agenda pursuant to the independent decision of the committees.

The Committee on Employment put our report on adult education on its agenda, and the drafting of the new act on adult education commenced by taking the SAO's recommendations into account. They also discussed our report on the implementation of the National Development Plan as well as the study on the subsidy scheme for disabled persons.

The Supervisory Subcommittee of the Committee on Healthcare adopted a recommendation to promptly implement the recommendations of our report on outpatient surgery treatment.

The committees on Municipalities and Defence put the relevant report of the SAO on their agendas when discussing the bill on Disaster Prevention.

The Committee on the State Audit Office of Hungary and the Budget asked the National Bank of Hungary to supplement its report with the relevant findings of the SAO report in order to be able to make a decision on the eligibility of the Committee's report on the activities of the National Bank of Hungary in 2010.

The Committee set up to investigate the decisions made in the 2002-2010 period that led to the current economic predicament of the Hungarian Railways used the SAO's reports for the purposes of its own report on the audit of the modernisation of railway transport, and the audit of the financial management of public enterprises that have been loss-making for an extended period.

The Subcommittee of the Committee on State Audit Office of Hungary and the Budget set up to investigate the reasons behind the increase in government debt in the 2002-2010 period heard a representative of the SAO in March, who relayed the experience of the relevant audits, which were later incorporated in the July report of the subcommittee.

The report on the SAO's activities in 2010 was discussed by five committees as a separate agenda item.

In its opinion, the Subcommittee of the Committee on Audit Office and Budget that has been investigating government measures of the past eight years has recommended involving the SAO in further investigations.

Cooperation in the deregulation process launched as part of the Magyar Programme

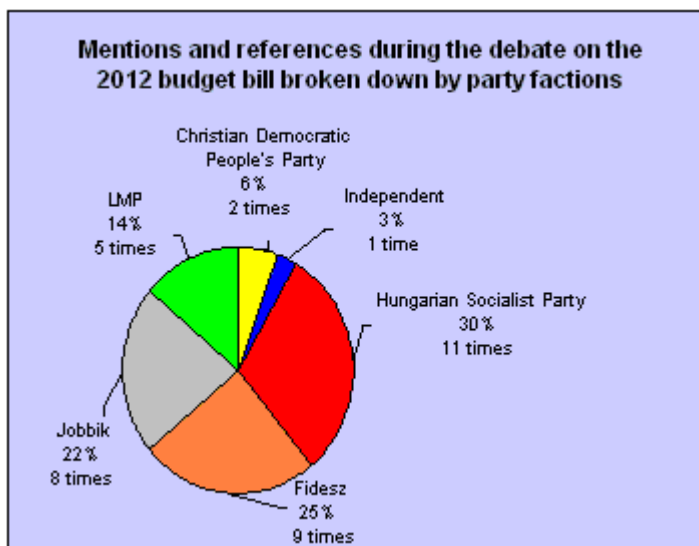
Keeping the objectives of the deregulation process in mind that had been launched as part of the Magyar Programme, in the autumn of 2011 the employees of the SAO started reviewing the resolutions of the National Assembly that were still in force and adopted between January 1, 1990 and May 14, 2010 (the date of the formation of the current National Assembly). This exercise was geared towards taking account of the resolutions of the National Assembly that set out a task for the SAO, receive information from the SAO, or concern the activity of the SAO in

any other way. During the review, we found 76 National Assembly resolutions that are related to the SAO in one way or another (defines tasks for the organisation, requests an audit, refers to an SAO report, mentions audit tasks, etc.). Only 26 of these, however, have any effect on the duties, basic activity, or operational rules of the SAO. In our opinion the resolutions mentioned before include several resolutions that do not have any legal content and therefore keeping them in force is no longer required.

As a result of the review we have prepared a list of resolutions of the National Assembly which we have recommended to be repealed to the Committee of the National Assembly on the State Audit Office of Hungary and the Budget (the annex sent to the committee includes the recommendation).

The SAO as a reference point

In 2011, of the 98 parliamentary session days MPs referenced SAO reports and activity on 80. The plenary sessions were attended by the President and Vice-president of the SAO who spoke six times. Besides the speeches related to the reports, the President of the SAO also spoke during the debate on the SAO Act and the Act on Local Governments and on one occasion also responded to an immediate question. Of our reports discussed at the plenary session, the greatest attention was directed at the opinion on the 2012 budget.



During the general debate on the budget appropriation bill and the related SAO opinion and substantiating acts, 40 contributions of 26 MPs mentioned or referenced the SAO. The impartiality of the SAO opinion is reflected by the fact that the contents of the SAO report were used as arguments and even quoted from by both government and opposition MPs. The high number of references shows that MPs consider SAO reports as credible professional sources.

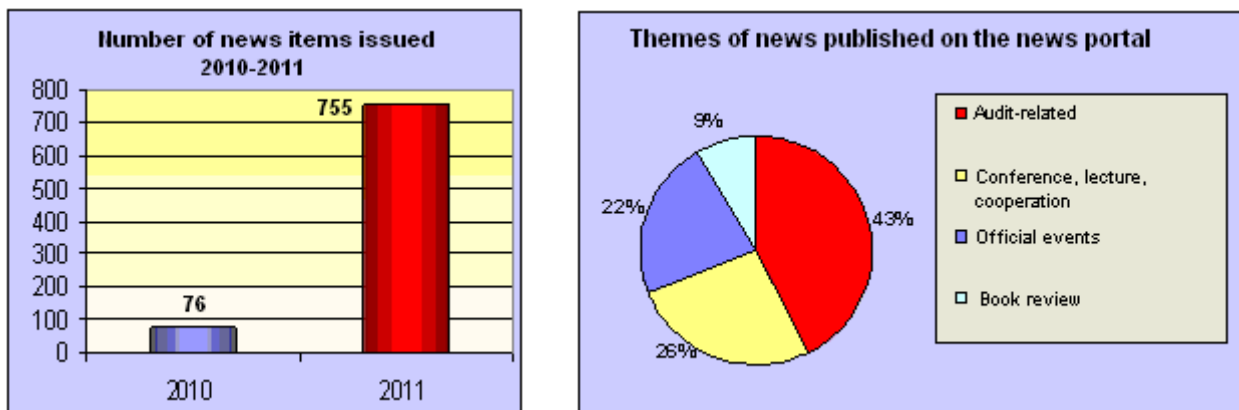
2.2. On a social level

Credible first-hand information

In order to be able to utilise the SAO’s work, it is essential that the organisation inform decision-makers and taxpayers first-hand with credible information. SAO reports, technical documents as well as data and information to be published pursuant to legal obligation are available for download from the official SAO website (www.asz.hu); however, the SAO also uses other channels of communication.

In the spirit of transparency and accountability, we provide detailed reports on all SAO operations, events and work. In the interest of the above, we have established the SAO News Portal (www.aszhirportal.hu), due to which the number of self-published articles on the SAO has

multiplied tenfold. The SAO portfolio also includes the László Domokos news portal, which serves to present the social role and responsibility of the President of SAO.



Our objective is for public opinion, the media, the profession and the National Assembly to consider the online contents of the SAO a point of reference and direction. It is also unique in an international comparison that the participants themselves provide information on news and events, with auditors themselves recounting audit results. Accordingly, this allows us to become the sources for the news about us. The News Portal provides unprecedented transparency with respect to the operation of the SAO; taxpayers are able to follow on a day-to-day basis how the organisation utilises their contribution. Throughout the year, we constantly monitored arising user needs and have developed the portal accordingly.

The News Portal published a total of 507 news items in 2011. Half of these were related to audits, while the other half was made up of news about international events, conferences, lectures, cooperations as well as official events and visits.

In 2011, 48,035 people visited the SAO News Portal. The electronic press conference on towns with county status that was adapted to the needs of the non-capital press generated outstanding visitor numbers.

Renewed official website

The official SAO website underwent a technological overhaul in 2011. As a result, Internet search engines are now able to find website content and list these contents at the top of search results. Website visitors now also have the opportunity to run detailed searches using the search window which, similarly to optimisation, serves to ensure that users easily find the content they are looking for. We have revamped the ‘Professional research and development’ menu item on the SAO website, and as a result the publication of the professional documents of SAO associates is comprehensive and organised. We have set up a virtual press room, where press conference data as well as press releases and summaries are easily accessible.

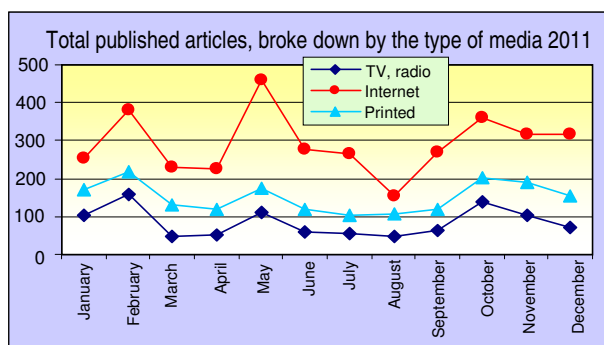
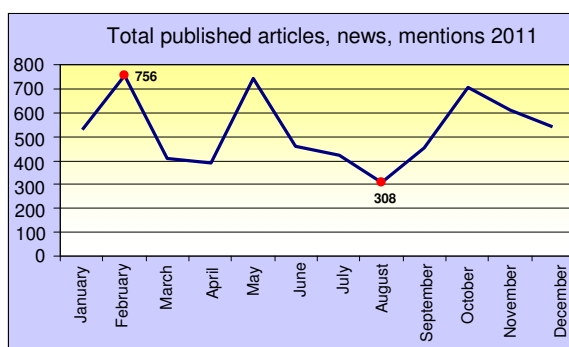
As of October 2011, detailed information is available on download and site visit data. These data show that besides reports, there is also great interest in the professional/academic activities of the SAO. Between October and December, SAO reports were downloaded 5,564 times, while issues and articles of the Public Finance Quarterly were downloaded 3,906 times from external IP addresses. The significance of professional/academic activity is well reflected by the fact that the English version of the Public Finance Quarterly has been downloaded from the SAO’s English website more times than report summaries.

Quantitative and qualitative analyses

In 2011, we held 69 press conferences at 29 different times which is more than three times the average of previous years. This outstandingly high number is in part due to ‘electronic’ press conferences used for reports on mid-level local governments. Due to this new, innovative and indirect mode of conveying information, we were able to hold a total of 42 press conferences at two occasions, separately informing the local media of the given counties or towns with county status.

A total of 6,337 news articles were published on or related to the SAO. When assessing results, we also applied quantitative and qualitative methods; beyond the number of news items, we also measured their content and distribution of sources. In summing up media appearances, approximately 3% of news could be considered negative, and the ratio of news from an original (SAO) source was close to 40%.

A high level of media coverage was generated in connection with the presentation of the new SAO strategy, the Integrity project, the opinion on the 2012 budget and the audits of counties and towns with county status.



The trend of recent years shows that there are as much pieces of news published online regarding the SAO as there are in printed media, radio and television combined. The dominant nature of the Internet means that the online platform plays a key role in our communications.

Increasing professional/academic recognition

The year brought significant progress and renewal from a professional-academic aspect as well. The practice of the Public Finance Quarterly, the periodical published by the SAO, was also transformed. In line with international standards, we introduced double blind proof-reading and created new author’s guidelines. In order to expand the range of authors, we announced a call for papers and have also announced a call for applications for PhD students. The English language articles of the Public Finance Quarterly are now also available from RePEc, the most esteemed economic database in the world; thus our publication is now present on the world stage of

economic academia. One of the most important developments of the year was the creation of Public Finance Quarterly Online (www.penzugyiszemle.hu). Supplementing the periodical's profile, the portal provides a clear-cut, easy-to-follow discussion of the issues of finance, with a special emphasis on the most pertinent issues of public finances. Our efforts were successful and as a result the Hungarian Academy of Sciences has bumped the Public Finance Quarterly into a higher category.

Academic conferences

The SAO paid special attention to supporting the development of financial culture and sharing best practices experienced in the field of public finance management. SAO associates attended a total of 32 national and international professional events where they gave 18 lectures in the topics of finance/public finance, tax issues, economic law, auditing and regulation. We organised five dedicated conferences: on the macroeconomic environment of the 2012 state budget, the cost saving management of local governments within the framework of good practices, the establishment and operation of internal controls related to budget appropriation and final accounts processes, the renewal of public auditing, and the system of public sector auditing on the occasion of the 140th anniversary of the State Audit Office of Hungary. Furthermore, we also organised a conference series titled 'Transparency and Accountability in Cardinal Laws' with topics on the Fiscal Council, the Act on Political Parties and assets.

Expanding institutional relations

We also overhauled the SAO's system of institutional relations in line with our strategic goals. We reviewed and assessed our partner institutions and made the effectiveness and utilisation of cooperations measurable. Over the course of the year, the cooperation agreements raising the institution's prestige and academic recognition expanded dynamically. We prepared and entered into cooperation with internationally renowned institutions such as Eötvös Loránd University and the University of Szeged. In the interest of supporting good governance, the SAO signed a memorandum of understanding on cooperating with government organisations in the fight against corruption. The SAO cooperated with a total of 63 institutions on 125 occasions in the fields of expert services, academic research and education-vocational training.

The 'Mapping Corruption Risks' project

In 2009, the SAO launched its priority EU project entitled 'Mapping Corruption Risks – Strengthening Integrity Based Administration' (SROP No. ÁROP-1.-2.-4-09-2009-0002), in line with its medium-term strategy declaring the creation of the integrity-based, transparent and accountable utilisation of public funds and its role in the fight against fraud and corruption as the organisation's fundamental values. Within the framework of the project, in 2011 the SAO for the first time assessed and published the corruption risks of public sector institutions with the help of electronic questionnaires. Based on the results, the SAO prepared detailed analyses on the risks of the various sub-systems. Within the framework of the project, we began development of an electronic curriculum and held trainings for approximately 205 public administration experts on the topic of corruption and its prevention. Within the same topic, the SAO also organised an international conference and extension training for audit office experts from Central European countries and post-Soviet member states.

Handling of complaints and cases reported by the public

In accordance with the provisions of the new SAO Act, all data and facts that become known to the SAO regarding the audited organisations can be used during in-progress and planned audits. Compared to previous years, in 2011 a large number of complaints and cases reported by the public were received by the SAO, 520 in total. The institution does not launch its audits based on such notifications, but rather on the basis of a plan; however, during the audits it does utilise

information and feedback received from members of society. In matters outside its scope of authority, it helps the resolution of cases by providing information and directing said cases to the competent organisation.

3. International and methodological work

International relations supporting the SAO's professional activity

The international activity of the SAO in 2011 supported the improvement of audit assignment performance and the operation of the organisation as well as external communication, in line with the medium-term strategy. The meetings of international organisations identified those priority issues, along which the SAO also created and amended its own priorities. Internationally, the three key areas where the SAO took on an active role in 2011 were the *fight against corruption, the application of professional standards and communication*.

In line with objectives, SAO staff attended and took on active roles at several international events dealing with priority topics (e.g. UN-INTOSAI symposium on communication between audit offices and citizens, V4+2 seminar on the fight against corruption, and the meeting of EUROSAI's professional standards Goal Team). Attending these events also contributed to the successful sharing of professional experience.

Besides the priority topics, the SAO retained its previous working group memberships and conducted intense professional activities on both an institutional and expert level. Beyond sending professional materials, the representative of the SAO also contributed to the activities of the INTOSAI Working Group on Key National Indicators by coordinating a sub-project dealing with the indicators of sustainable development.

Within the framework of the EUROSAI, beyond cooperation within professional working groups (IT, environmental protection), we also participated in coordinated audits (on the topics of climate change and the utilisation of state funds separated to prevent disasters and to eliminate their consequences) conducted within working groups.

Pursuant to the resolution of the EUROSAI Congress, the electronic database summarising the good practices of member states on quality management – an important tool of international knowledge sharing – will be made available on the SAO website.

Of the professional groups (Goal Teams) set up in line with the international organisation's new strategy, the SAO is represented in three (capacity building, professional standards and knowledge sharing); accordingly, our representatives attended the kick-off meetings and over the next six years will be playing active roles in the goal teams' work. The fact that the representative of SAO was asked to head and coordinate the EUROSAI Sub-Committee on SAI's Independence shows how much our work is recognised.

As members of the network for cooperation between the supreme audit institutions of EU Member States and the European Court of Auditors (ECA), in 2011 we again attended the annual meeting of the Contact Committee where we informed attendees about the management of the coordinated performance audit of the railway development project Trans-European Transport Network (TEN-T) as well as the preparation of the related joint report and the seminar organised in Budapest on the topic. SAO – as chair – was the host of the annual meeting of the Working Group on VAT in 2011. Of the joint activities of the Contact Committee approved for 2011, we participated in conducting the parallel audit initiated by the Netherlands Court of Audit entitled 'Enforcement of EU regulations on waste shipment'. With respect to activities regarding the future, we recommended organising a seminar aimed at sharing experience gained during the

winding-up of the 2000-2006 programming period, which was supported by the Contact Committee.

Methodological activity

In accordance with the SAO's strategic objectives aimed at developing audit-specific professional and methodological activity – following comprehensive internal professional assessment – in 2011, the State Audit Office of Hungary commenced the adaptation of the relevant guidelines of the INTOSAI standards, such as ISSAIs (International Standards of Supreme Audit Institutions) and INTOSAI GOVs (Guidance for Good Governance).

During the development, within the framework of gap analysis, we defined the requirements resulting from amended international provisions and analysed the contents of existing auditing rules. In the interest of fully harmonising INTOSAI standards and the SAO's internal professional rules, we have commenced renewing existing professional rules applicable to SAIs and formulating those that were still missing.

The Hungarian translations of INTOSAI's key documents concerning the profession of auditing have been completed. An SAO working group provided for the proofreading of the Hungarian language translation of key documents concerning the profession of auditing, and updated the contents of the existing glossary of audit terminology. The key documents of the ISSAI framework are available to read in Hungarian on the SAO website.

In 2011, in light of the INTOSAI professional standards, the enhancement of the SAO's quality management system commenced. The first results of the multi-annual development activity are expected at the end of 2012.

Research Institute of the SAO

The Research Institute of the SAO (hereinafter referred to as: Institute) completed its research tasks for 2011¹⁰. Within its work, priorities were contributing to the renewal of SAO's audit activity, for instance in the fields of fight against corruption, developing performance indicators or developing the evaluation system of state subsidies. As such, the results of the research work were utilised directly in the activity of the SAI.

In accordance with the provisions of the research plan, SAO's operational plan, its international relations plan or upon the request of the management, the Institute staff provided professional services. Of these, it is worth mentioning their collaboration in implementing the EU-funded priority project supported by the State Reform Operational Programme of the New Hungary Development Plan titled '*Mapping Corruption Risks – Strengthening Integrity Based Administration*', in preparing the risk-maps of SAO audit directorates, in providing opinions on the 2012 budget appropriation bill, in providing professional assistance and services to the series of seminars titled '*Best practices*', in helping to edit the Public Finance Quarterly, and in providing opinions on professional concepts and bills on the modernisation of the system of public finances.

The Institute was closed down as of 31 December 2011 in the interest of more efficient and cost-effective task performance.

¹⁰ In 2011 the Institute published the following papers: '*The traditional system of national accounts and alternative evaluation methods and indicator systems*', '*International experience gained regarding the appraisal of risks of corruption within the public sector*' (the study is a sort of summary of the Institute's anti-corruption research activity which it has conducted for several years), '*Local government finances - Domestic challenges and international examples*' and '*Macroeconomic risk analysis of the 2012 budget appropriation bill*'.

4. Organisational development

Consistency of tasks and organisational structure

The year 2011 was a milestone in the life of the SAO. In line with the medium-term strategy, the focal point of organisational development is to establish an organisational structure that is consistent with the tasks to be performed. In order to achieve this, we have developed a matrix organisation in several steps and have introduced project-centred work which brought several changes.

The foundation for project-centred work was laid down with the establishment of the Office of Auditors, whereby departmental organisations in the audit field ceased to exist and their staff moved to the Office of Auditors. The establishment of the Office of Auditors allows us to assign capacities to audits that are actually necessary; therefore the resources used depend on the task to be performed. This allows us to prevent the capacities available to organisational units from determining or influencing task performance.

The changes also impacted supporting organisational units, both in terms of role and structure. It was true for these areas as well that auditors employed by the Office of Auditors are regrouped to functional fields and specific assignments. This allows the management of varying task loads, but we are also expecting the system to bring about a significant change in approach, as project logic extends to these areas as well, reinforced by the practice that people working in functional areas actually contribute to audit activities. On the one hand, this represents a continued professional renewal, and on the other, reinforces the view that we are all working towards and in the interest of audit reports.

As a result of reorganisation, in several stages the number of organisational units decreased significantly and in turn so did management staff numbers. The number of organisational units dropped from 48 to 27, then – in accordance with the decision taken at the end of 2011 – to 16. Audit management staff numbers depend on the number of SAO projects, vary continuously and adapt flexibly to assignments.

Competency-based resource planning

The other focal point of the organisational change in 2011 was the transformation of the logic of resource planning and resource management, which also included several system-level changes.

Audit managers are selected through internal tenders to perform audit assignments, which ensures internal flexibility; i.e. that the audit is always managed by our most competent staff member, while also providing career advancement for outstanding professionals. We have established an appropriate incentive-motivational framework for audit management tasks.

We have completed the professional competency assessment of auditors. Taking that into account, we can assign auditors with suitable professional skills to the assignments to be performed for the duration of the assignment.

Providing for human resources

Over the course of the year, staff replacement became a priority issue for the organisation for a number of reasons. At the beginning of 2011, staff number in the organisation was 537 with the ratio of unfilled positions at 10%.

A significant reduction in staff numbers occurred during the year; 81 employees (15% of the initial headcount) left the organisation, which rendered providing for appropriate resources as well as meeting increased requirements and tasks a considerable challenge. The primary reason for employee migration is the fact that the Act on Social Security Pension Benefits has allowed women to apply for old-age pension after 40 years of service. Twenty-five per cent of employees

leaving were women in this category. As a result of staff members' average age being already rather high, 74% of employees leaving left for various pension-related reasons.

One hundred and seventeen employees joined during the year. Thus, the end-of-year headcount jumped to 573, which is still 25 employees below the permitted limit. As part of corporate social responsibility, the SAO introduced a trainee system which helps new graduates acquire their very first workplace experience. The programme's objective is to ensure the utilisation young experts' knowledge and to lay the grounds for good work practice among those opting for the auditing profession. In 2011, 31 young graduates began work as trainees. This programme went a long way to help solve the problem of staff replacement.

The high rate of employee fluctuation determined our training strategy as well; operational security became a primary consideration. In 2011, we focused primarily on training newly hired staff – auditors, assistants and administrative staff. Over the course of this training, during practical sessions they became familiar with IT systems and softwares used at the SAO; while attending professional lectures, they were familiarised with the organisation and operation of the SAO, the various audit types and the audit process itself.

Quality-oriented operation

The medium-term strategy of the SAO considers quality-oriented operation one of the organisation's fundamental values. The quality assurance system operated within the framework of the quality management system of audit activity – in line with international standards – is a system of control supervision that extends to the whole of the reporting process.

Our objective is to increase confidence in SAO audits, primarily by ensuring high-level audit assurance as well as the high professional quality of audit findings, conclusions, calls, proposals and recommendations made to auditees and decision makers. As a result of more 'quality-conscious' reporting than before, in 2011 our results were expressed in the improvement of reports in terms of content and form, the change of organisation-level quality approach, as well as the improvement of intra-organisational cooperation through the enforcement of the 'service provider' approach.

The new organisational structure ensures the human background based on task performance needs to the performance of expanded quality assurance tasks.

The new audit planning system

As a strategic goal, the SAO set supporting the improvement of the quality and efficiency of audits through a selection of audit topics that relies more heavily on the findings of risk analysis and evaluation. Besides the implementation of timely and good quality audits, this effort was also justified by the harmonisation of the performance of wide scale obligations and powers and resources of limited availability. In line with the above, 2011 saw the start of the reorganisation of the audit planning system. The selection of audit plan topics and the substantiation of on-site audits are more emphatic than before in this process. Audit assignments can only be designated in the audit plan after a multi-step preparation and approval procedure.

Rolling planning ensures the timeliness of audits and increases the flexibility of the organisation. Within this framework, the institution performs planning and the evaluation of risks as an ongoing task. During the year, the assessment of the preparation progress of audits, preliminary studies and audit programmes was performed several times in order to assess the changes required by timeliness and to utilise the experience of various audits. These review results shape and direct the planning process.

The change was also supported by organisational development measures and as part of these measures new – planning, risk analysis – tasks were defined.

Renewal of internal regulations

The entering into force of the new SAO Act called for the review of the internal regulations of the institution and all its management tools. As a result of the regulatory and re-regulatory activity that was an important tool of organisational development, the first step was the renewal of the Operational and Organisational Rules (OOR). With the amendment of the OOR, the strategic objective to focus on creating project-centred work and the organisational structure best adapted thereto was expressed at a regulatory-level as well.

The office organisation created by amending the OOR is made up of core management, supervisory, direct audit, support and basic function units. The OOR regulates the organisation, its operational rules, the progress of the audit process and its basic elements through an audit-centred approach.

The review of the system of detailed regulations – a total of 172 management tools – on SAO operation was started following the review of the OOR as an internal management tool, and was followed by their re-regulation as part of a process involving several steps. During the re-regulation, besides harmonisation with the new OOR and changed legal framework, another important objective formulated was the rationalisation and standardisation of the regulation system. The re-regulation of the document management system that directly maps organisational operation and management-procedural processes established the framework for the modern regulation of administration activity adapted to the unique features of the organisation.

Thanks to the re-regulation, standardisation and repeal of redundant management tools as a result of the first phase of the review process, 77 management tools were deregulated and 21 were re-regulated in the reporting period until the end of 2011, of which six entered into force on 1 January 2012.

5. Fiscal management

The SAO compiles its proposal for its own budget and its report on the implementation of its budget itself, which will be submitted without any changes by the Government to the National Assembly as part of the bill on the central budget and its implementation.

The audit of the chapter's financial statement prepared for 31 December 2011 was conducted by an independent chartered accountant selected by the Speaker of the National Assembly through a public procurement tender.

According to the chartered accountant's report, the annual financial statement provides a true and fair view of the assets and financial standing of the budget heading for the State Audit Office of Hungary as at 31 December 2011.

In the Act on the Budget, the National Assembly allocated HUF 7,240.5 million for the discharge of the SAO's duties in 2011, of which HUF 7,220.5 million was covered from subsidies and HUF 20 million from the SAO's own revenues.

Over the course of our 2011 financial management, our priority tasks were the cost-efficient utilisation of resources, and the efficient utilisation of available capacities which allowed us to waive – also taking into account the country's situation – the option to initiate the release of and to utilise the HUF 361.0 million chapter reserve generated pursuant to Section 3 of Act XXXII of 2011 on the Amendment of the Act on the 2011 Budget as well as the HUF 445.8 million uncommitted 2010 residue (a total of HUF 806.8 million) left over by Government Decree No. 1216/2011. (VI.28.).

During the year, key budget appropriations and their performance were as follows:

(data in HUF million)

	Original appropriation (1)	Amended appropriation (2)	Performance (3)	Index (3)/(2)
Personal allowances	4,731.0	4,646.6	4,514.8	97.2
Contributions payable by employers	1,263.6	1,245.4	1,139.3	91.5
Non-personnel and current expenses	1,001.0	1,009.9	814.6	80.7
Other operating expenditures		445.8	445.8	100.0
Institutional investment	183.0	255.9	186.4	72.8
Renovation	61.9	30.0	28.5	95.0
Chapter reserve		361.0		
Lending		2.4	2.4	100.0
Total expenditures:	7,240.5	7,997.0	7,131.8	89.2
Operating revenue	18.0	18.0	6.0	33.3
Non-operating revenue	2.0	2.0	9.3	465.0
Revenues equivalent to funding		73.0	75.2	103.0
Loan repayment		2.4	2.4	100.0
Budget subsidy	7,220.5	7,254.5	7,254.5	100.0
Residue from the previous year		647.1	647.1	100.0
Total revenue:	7,240.5	7,997.0	7,994.5	99.9

Pursuant to adjustments during the year, the original appropriation was increased by HUF 756.5 million, comprising

- HUF 647.1 million for the use of the appropriations residue from 2010,
- HUF 7.3 million in compensation paid pursuant to Government Decree 352/2010. (XII. 30.),
- HUF 5.5 million in expenditures on the employment of national experts,
- HUF 21.2 million in reimbursement of employer costs related to the ‘prime years’ programme,
- HUF 73.0 million as the amount of amendment related to the project entitled ‘Mapping Corruption Risks...’,
- HUF 2.4 million in housing loans disbursed against repayment instalments collected.

Actual expenditures amounted to HUF 7,131.8 million, which amount is 89.2% of the amended appropriation. The combined amount of personal allowances and contributions payable by employers (HUF 5,654.1 million) accounted for 79.3% of the expenditures, with 11.4% spent on non-personnel expenses, 3.0% on non-operating expenditures and 6.3% on other operating expenditures.

Within the total expenditures, in 2011 we spent HUF 133.0 million on the implementation of the tasks of the project entitled 'Mapping Corruption Risks...'. Full financial settlement is to be performed after the 31 March 2012 closing of the project's professional activities.

In 2011, HUF 862.7 million was accumulated in residues, of which HUF 421.7 million is to cover commitments arising from rescheduled and delayed tasks to be performed in 2012; chapter reserve is HUF 361.0 million and residue available is HUF 80 million.

Overall, the appropriations available provided the operational conditions required by the SAO for the uninterrupted discharge of its basic duty.

The ongoing organisational modernisation adapted to the new SAO Act that entered into force on 1 July 2011 and the new SAO strategy, as well as the implementation of internal transformation in line with the new approach both brought significant changes in the organisation's professional management and financial management. From this point on, the responsibilities of the head of the agency directing the chapter, previously performed by the Secretary General, shall be performed by the President. The organisational changes provide further opportunities for the more mobilised, therefore, more efficient utilisation of personnel in order to make the accommodation and operating conditions more cost-efficient. Other measures preparing or laying the foundations for changes of content were taken, the impact of which will become more apparent from 2012. The most important ones are as follows:

- The closing down of the Research Institute of the SAO as of 31 December 2011. The tasks performed by the Institute can be performed more efficiently and cost effectively within the organisational framework of the SAO.
- In its current form, the SAO library, that had been operating under poor technical and economic conditions, has been closed down. The expansion of opportunities to access the required information on the Internet as well as the option to use the Library of the National Assembly provide sufficient guarantee that users will be able to utilise the technical literature. A new education and information service provision site will replace the library, which will ensure more efficient and at the same time more cost-effective conditions for the internal extension training of associates and in particular for the preparation of recent graduates.
- By rationalising the accommodation conditions of SAO employees working in Budapest, we have managed to decrease the size of leased spaces. Through careful selection of the location of the new office space, we were able to decrease the number of sites as well as the price per m² of the rent. In addition, we are attempting on the one hand to minimise the size of leased spaces through other measures (creating large, open-space rooms) and on the other, by optimising placement conditions.
- Instead of expert assignments for audits requiring special knowledge, we will be implementing audits by reorganising and regrouping tasks and using our own staff if possible. We will be increasing the ratio of auditors participating in audits within existing staff, thereby increasing the number of audit working days.

Among the planned works performed in the interest of preserving buildings, in 2011 we have renovated the stairwell and replaced the boiler at the building located at Lónyay utca 44. At Dunaház office building, we ensured the creation of open-space offices that have become necessary as a result of the organisational transformation and have also procured the necessary furniture.

In order to renew the vehicle fleet as planned, five vehicles have been replaced.

In the field of IT, we placed emphasis on maintaining the technical level achieved, on preparing the developments to be implemented in the 2012-2015 period and on defining requirements.

The procurement of security software and renewal of licenses for such software (firewall, intrusion prevention, spam filter, web security and content filter, Symantec virus protection, etc.) enabled us to ensure the integrity and confidentiality of data generated and stored at the SAO. As a result of updating the Novell Zenworks Configuration licenses and installing the application, as well as by utilising state-of-the-art software distribution, remote supervision, up-to-date hardware and software inventory-making technologies, the relative efficiency of the IT operation unit increased.

Over the past year, 50 desktop computers and 140 notebooks were procured. Equipment and tools were replaced on an ongoing and planned basis, in line with staff increases. In the interest of providing dynamically growing IT services at an appropriate level, memory storage was expanded by 200 GB and one new server unit was installed at each location. In 2011, we continued to apply the virtualisation technologies began in the previous year; we performed the migration of 16 server units which operate on five physical servers and have made operation more environmentally-friendly by shutting down 11 outdated servers.

The internal audit function of the SAO

In the first third of 2011, the internal audit assignments of the SAO were carried out by one, and later by two internal auditors.

In the first half of 2011, the Secretary General of the SAO was in charge of internal audit activity; however, in the second half of the year – in line with legal changes – it was placed under the direct control of the President of the SAO. Functional independence was ensured throughout the reporting period and was not violated.

The internal auditors organised their activities independently, free of any outside influence, conducted said activities impartially and objectively, and compiled the audit report containing their findings, conclusions and recommendations in the structure and content stipulated by law. Beyond audit activities, the internal auditors were not involved in any other activities. The independence of our task performance was fully enforced. There were no cases of conflict of interest.

The internal auditors in employment have higher education degrees, have the professional qualifications and work experience required of internal auditors and are listed in the register of persons entitled to perform internal audit activities as kept by the Ministry for National Economy of Hungary.

In the interest of ensuring and maintaining the appropriate level of preparedness of internal auditors, we provided access to necessary extension trainings. In 2011, no compulsory further training was required to retain registration.

Internal audit assignments were implemented on the basis of the annual plan approved by the head of the budgetary institution, with the utilisation of available internal auditor capacity according to the plan. No outside experts were involved and capacities were not supplemented through external sources.

The personnel and material conditions of internal auditing were appropriately ensured throughout the year.

For the most part, the objectives of the annual work schedule were accomplished; the implementation of two internal audits was carried over to the year following the reporting period. In addition to internal audits, advisory activity became more emphatic than initially planned, within the framework of which internal auditors provided opinions on the SAO's financial management-related internal orders and draft regulations.

During the reporting period, internal auditors facilitated the level of regulation of SAO operations and the more efficient utilisation of resources through observations and recommendations. Certain measures necessary for the utilisation of recommendations and proposals have been implemented, while others are in progress.

Annex
Resolutions/ points of resolutions
of the National Assembly proposed to be repealed

1. Proposed for repeal in part

- Paragraph 1 of Parliamentary Resolution No. 35/2009. (V.12.) on the acceptance of the Report on the Activity of the State Audit Office of Hungary in 2008
- Paragraph 1 and Points b)-c) of Paragraph 3 of Parliamentary Resolution No. 72/2008. (VI.10.) on the acceptance of the Report on the Activity of the State Audit Office of Hungary in 2007
- Paragraph 1-2 and Points a)-c) of Paragraph 3 of Parliamentary Resolution No. 43/2005. (V.26.) on the acceptance of the Report on the Activity of the State Audit Office of Hungary in 2004
- Paragraph 1-3 of Parliamentary Resolution No. 29/2001. (V.11.) on the acceptance of the Report on the Activity of the State Audit Office of Hungary in 2000.

2. Proposed for repeal in whole

- Parliamentary Resolution No. 112/2007. (XII.19.) on the State Audit Office audit of the sale agreement regarding the sale of the building located at Budapest VIII, Köztársaság tér 27 that comprises treasury property
- Parliamentary Resolution No. 41/2007. (V.23.) on the acceptance of the Report on the Activity of the State Audit Office of Hungary in 2006
- Parliamentary Resolution No. 47/2006. (X.27.) on the acceptance of the Report on the Activity of the State Audit Office of Hungary in 2005
- Parliamentary Resolution No. 22/2004. (III.31.) on the acceptance of the Report on the Activity of the State Audit Office of Hungary in 2003
- Parliamentary Resolution No. 112/2003. (X.27.) on the Amendment of Parliamentary Resolution No. 69/2002. (X.4.)
- Parliamentary Resolution No. 35/2003. (IV. 9.) on the acceptance of the Report on the Activity of the State Audit Office of Hungary in 2002
- Parliamentary Resolution No. 23/2003. (III.13.) on the amendment of Parliamentary Resolution No. 27/2002. (VI.5.) on establishment of the temporary (ad-hoc) committee appointing the vice-presidents of the State Audit Office of Hungary
- Parliamentary Resolution No. 94/2002. (XI.13.) on the statement on the operation of Hungária TV Public Foundation in the period from 1 April 2001 to 31 March 2002
- Parliamentary Resolution No. 89/2002. (XI.13.) on the statement on the activities of the board of trustees of Hungarian Television Public Foundation in the period from 1 January 2001 to 31 December 2001
- Parliamentary Resolution No. 69/2002. (X.4.) on the acceptance of the Report on the Activity of the State Audit Office of Hungary in 2001

- Parliamentary Resolution No. 49/2000. (V.26.) on the acceptance of the Report on the Activity of the State Audit Office of Hungary in 1999
- Parliamentary Resolution No. 82/1999. (X.22.) on the acceptance of the Report on the Activity of the State Audit Office of Hungary in 1998
- Parliamentary Resolution No. 81/1999. (X.22.) on the acceptance of the Report on the Activity of the State Audit Office of Hungary in 1997
- Parliamentary Resolution No. 116/1997. (XII.17.) on the legality audit of real estate benefits provided by the state to certain parties
- Parliamentary Resolution No. 111/1997. (XII.10.) on the election of the President of the State Audit Office of Hungary
- Parliamentary Resolution No. 20/1997. (III.19.) on State Audit Office audits to be conducted at minority governments
- Parliamentary Resolution No. 19/1997. (III.19.) on the State Audit Office audit to be conducted at the Public Foundation for Hungarian National and Ethnic Minorities
- Parliamentary Resolution No. 12/1997. (III.5.) on the State Audit Office audit regarding the privatisation of Budapest Bank
- Parliamentary Resolution No. 57/1996. (VI.28) on the dismissal of the President of the State Audit Office of Hungary
- Parliamentary Resolution No. 115/1995. (XII.13.) on the acceptance of the Report on the Activity of the State Audit Office of Hungary in 1994
- Parliamentary Resolution No. 26/1991. (IV.23.) on the government tasks related to the Bős-Nagymaros Barrage System
- Parliamentary Resolution No. 91/1990. (XII.29.) on the review of the organisation and operation of the State Audit Office of Hungary