



ÁLLAMI
SZÁMVEVŐSZÉK

Report

**for the National Assembly
on the Professional Activity and
Operation of the State Audit Office
of Hungary in 2014**

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PRESIDENTIAL ADDRESS

Dear Reader,

The mission of the State Audit Office of Hungary (SAO) is to promote the transparency and regularity of public finances with its value creating audits performed on a solid professional basis, thus contributing to 'good governance'. Accordingly, in recent years it has been one of our priority objectives to launch the readjustment of public finances in as many places as possible through our recommendations. In line with this objective, in addition to the constant increase in the number of SAO reports, another key indicator of our performance is the number of organisations that our audits have reached. In 2014, the SAO was present at 966 sites and published 233 reports, and made 2,642 recommendations to audited entities.



This means that compared to 2010, the SAO has multiplied the number of its audits, and has facilitated the regular, economical, efficient and effective use of public funds and public assets at an increasing number of organisations. The foundation of this success was laid down by the audit-specific professional measures of recent years and the organisation's capacity enhancing developments. Overall, therefore, recent years have seen a shift in terms of quality as well as quantity in respect of audits. Started in 2011, the transformation of the SAO has entered its final stages in 2014. Matrix organisation, project-centred work, the rolling planning system and the topic selection system supported by risk analysis jointly allowed the SAO to increase the number of its audits from year to year. In terms of issuing SAO reports, the SAO – under its current frame of operation – has reached the peak and a state of completion.

The SAO used the funds available to it and the tax forints allocated to the performance of functions effectively and economically. The means of serving the achievement of these particular facets of performance worked well in practice, which was also confirmed by the audit results. The means of improving effectiveness and efficiency promote the successful identification of areas of risk, the detection of systemic errors resulting from repeated irregularities and deficiencies, and the attainment of the highest level of utilisation and the optimal use of resources.

In 2014, the SAO began to audit the financial management and operation of state and church-controlled higher education institutions. Last year, the SAO published a total of 9 reports in this topic. The financial management of companies majority-owned by local governments was also identified by the SAO as an area of high risk. As part of this effort, the audit of the Budapest Public Area Maintenance Company was completed last year and the SAO published a report on the audit of 17 theatres that operate as companies. Additionally, in 2014, the SAO initiated audits of 36 waste management and district heating companies majority-owned by local governments, with the related reports published in a schedule starting from January 2015.

The purpose of thematic audits is to reveal the systemic errors in the particular segments of individual subsystems, and, after performing an adequate number of audits, to provide an extensive, holistic picture of the given group of institutions and the whole of the audited area in the form of an analysis or a study. Our evolving risk analysis allowed us to perform audits in the areas where we were able to create the highest added value for society, also supporting "good governance" and a better functioning state. This year, we further reduced the number of grey areas and audited several areas that have previously been unaudited by the SAO.

It is the priority objective of the SAO to decrease the number of areas as yet unaudited by it. It is also important, however, that SAO audits are conducted in areas where they are the most needed. Fulfilment of this criterion is supported by selection through risk analysis. Our audit experiences confirmed that our risk analysis system functioned well. Accordingly, the audit of certain institutions of the central subsystem commenced, and the audit

of economic chambers continued. In the course of chamber audits, the SAO also managed to reach 122 economic entities to provide them with feedback on the practical implementation of policy targets. Over the past two years, the SAO completed the audit of 150 municipal minority local governments and initiated audits of regional minority local governments. We have also prepared a study to provide a summary and an analysis of the experiences of the audits of minority local governments. It should be noted that the weight and role of the SAO's analyses that impact public financial management has increased in recent years.

We continued to focus our audits on the areas that could have an effect on the competitiveness of the country or may be of risk in terms of public debt and also on the institutions that play a key role in the use and distribution of European Union funds. In addition, we also reached economic entities affected by the household utility charge reduction. Clearly, the audits conducted by the SAO promoted the development of the country manifested as sustainable economic growth, and created real value.

The SAO regularly analyses the possibilities of auditing the measures that influence competitiveness in order to facilitate GDP growth and to allow the country to outgrow its debt. The SAO also audited organisations that participated in the distribution and the audit of the use of domestic and European Union funds, the purpose of which was, once again, to facilitate an improvement in economic competitiveness. Accordingly, in 2014 the SAO completed the audits of the Hungarian Competition Authority, the Directorate General for Audit of European Funds, ESZA Nonprofit Kft (European Social Fund National Implementing Agency) and Wekerle Sándor Fund Management. This represents a concentrated, highly efficient audit approach as opposed to auditing tens of thousands of grant recipient. Additionally, it also manages audit parallelisms in an economic manner, while allowing for the possibility of risk assessment.

2014 marked the start of a new era, being the first year after the adoption of the new SAO Act in which we conducted follow-up audits based on an independent programme, thereby ensuring that we received feedback on the utilisation of our activity. Last year, the SAO completed its first series of independent follow-up audits within the new legal framework. This completed the building of the system, which allows for the full implementation of the intent of the National Assembly to do away with the practice of government auditing without consequences. The new type of holistic analysis prepared on the follow-up audits points to the conclusion for the whole of the subsystem of local governments that the measures that were taken on the basis of the recommendations of the SAO in the cities concerned by the follow-up audits contributed to the creation of the conditions of sustainable financial stability. The measures taken improved the level of the awareness, predictability and discipline of the economic organisation measures taken by the municipalities.

We are continuously striving to improve State Audit Office reports. These efforts of ours primarily serve the purpose of enhancing – through improvements in content and format – the usability of the document that presents the audit results. For this purpose we would like to create a format that is clear and structured, well-focused and one that well reflects the utilisation approach; a format that we want to introduce this year together with the renewed international audit standards.

The achievements of our advisory activity were also recognised by the National Assembly, which in 2014 adopted a resolution to confirm the social responsibility assumed by the SAO in developing financial literacy. The goal of the SAO is to systematically facilitate the reinforcement of the “good state” both through its audits and its advisory activities. The concept of the good state is not viable without the promotion and reinforcement of welfare and financial security. On pillar of that is responsible decision-making on a large scale, meaning that citizens must also have “healthy” financial literacy. As part of its social responsibility efforts, the SAO has supported the attainment of this particular goal in recent years and will continue its activities to reinforce the development of financial literacy, now also backed by a resolution of the National Assembly, in the future as well.

Thanks to the innovative approach adopted within the organisation, we were able to present a number of our initiatives at the EUROSAI Congress, held every three years, where, as a recognition of our active international participation, we were granted the role of heading the Capacity Building Working Group of EUROSAI. The purpose

of the Working Group is to build the capacities of the Supreme Audit Institutions and to facilitate their operation, which includes the development of skills, knowledge and work methods. The SAO wants to lead by example in this area as well; therefore, it is engaged in the continuous development of its capacities by creating policy (legal, statistical, planning, IT, analysis, utilisation) circles. The SAO is being developed in line with the international methodology directives.

We acted in line with the related National Assembly resolution to reduce corruption in the public sector. The results of this year's Integrity survey have confirmed that this series of surveys by the SAO acts as a sensitive instrument that is capable of providing feedback, monitoring tendencies, analysing the impact of government measures, indicating changes in corruption risks and highlighting areas where further development is needed. 1,584 organisations, more than ever before and in terms of staff numbers more than half of the total workforce of the Hungarian public sector, took part in the 2014 Integrity survey of the SAO. In respect of the close to 1,000 organisations that have joined the Circle of Integrity Supporters, the SAO has determined that their corruption risks have dropped slightly, but at the same time, their levels of control have increased, in other words, the gap between risks and controls has narrowed compared to 2013. Based on the tendencies observed last year, the change in attitude has started and was authentically measurable based on the assessment of the most recent survey last year. One of the most important factors of improving the public finance system is prevention-based thinking. An example of this was the disclosure of the integrity survey and its assessment. This was complemented by the development of church and local government self-tests, the presentation and explanation of these self-tests with stakeholders, church leaders and the heads of local governments elected in 2014.

László Domokos
President
State Audit Office of
Hungary

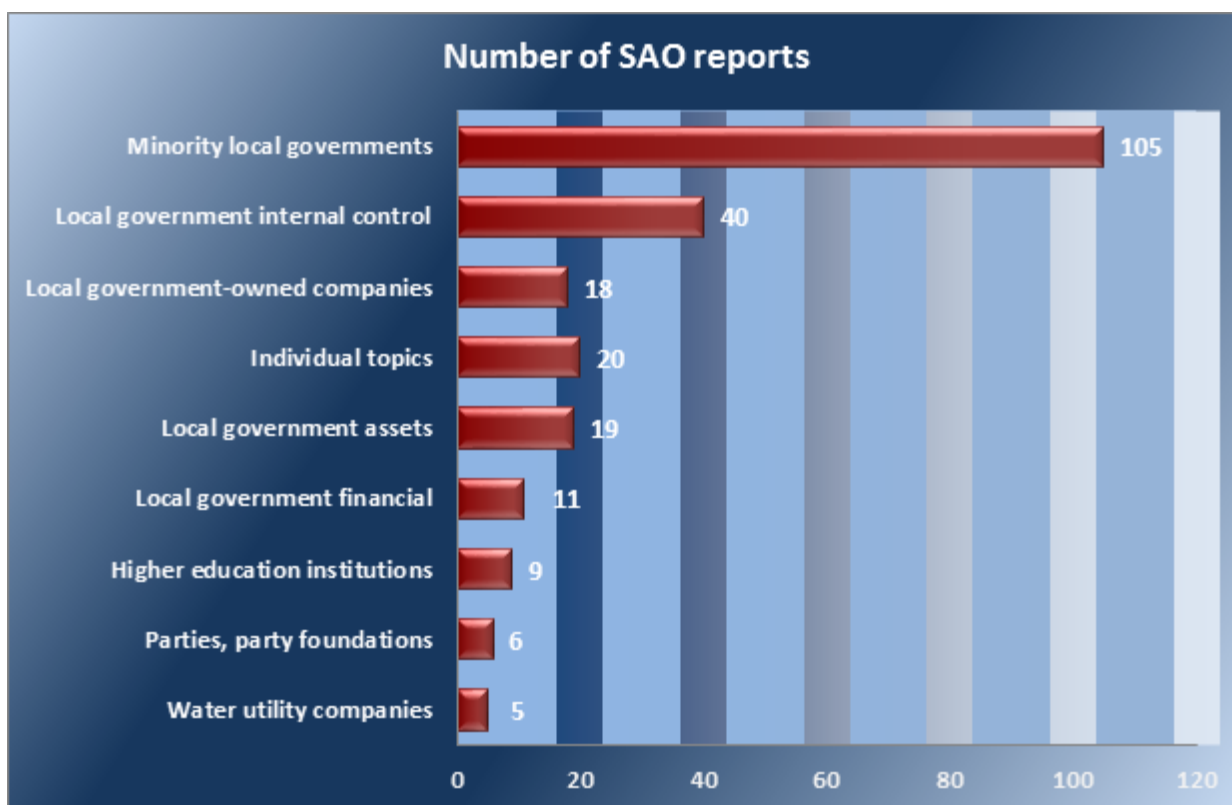
THE PAST YEAR OF THE SAO

2014 was the year of fulfilment in the life of the SAO in several respects. The renewal process started in 2011 was completed in most areas. In the coming years, we will have to respond to challenges by taking the results achieved as a starting point. The present report proves that, during its audits, the SAO does not just search and look for the criteria of effectiveness, efficiency and economy referred to so often in the past years, it also enforces these criteria for itself.

2014 in numbers

Last year, 233 SAO reports were published, allowing the SAO to start the readjustment of public finances on an increasingly wide scale. Based on the findings contained in its reports, in 2014 the SAO formulated a total of 2,642 recommendations with obligations to take action for 574 addressees. Pursuant to its mandate granted by the SAO Act, the SAO has been increasingly enforcing the utilisation approach reflected in the law in practice. Chart 1 shows the SAO reports published in 2014 by topic.

Chart 1



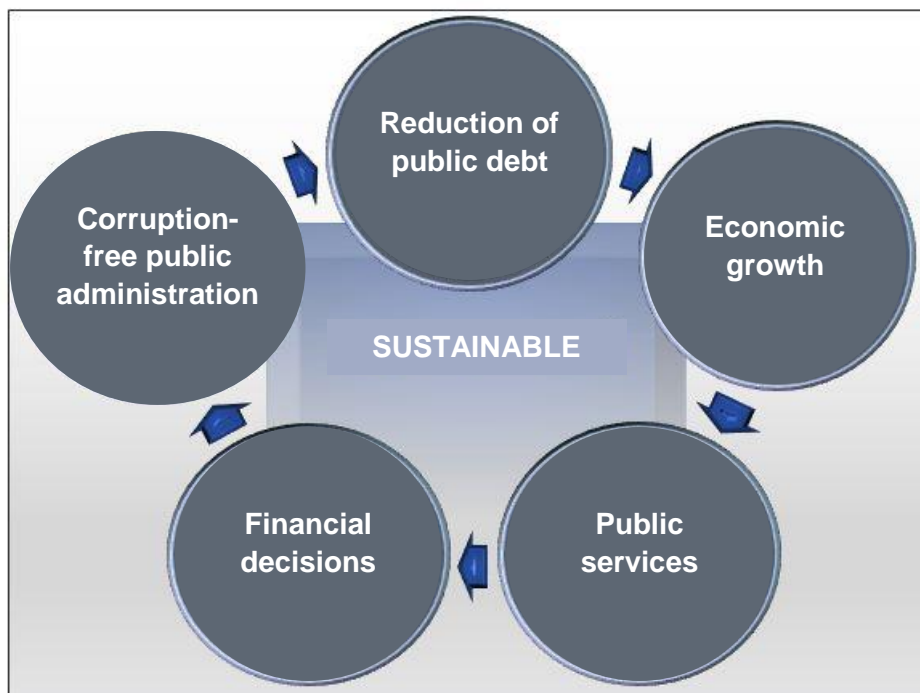
In the spirit of sustainability

Today, no supreme audit institution of any country can afford to disregard the requirements and value of sustainable development. The spirit of sustainable development is also given prominence in Hungary's Fundamental Law, and Parliamentary Resolution No. 18/2013. (III.28.) on the National Sustainable Development

Framework Strategy has also confirmed the commitment of the National Assembly in this respect. Accordingly, the SAO, as a constitutional fundamental institution has focused its attention on the area, which can be construed as a complex comprised of three interrelated units: social, environmental and economic sustainability. Ensuring the latter is also an integral part of the detection of the associated risks, and also of the creation of a stable growth path in the whole of the economy. The public debt requirement set out in the Fundamental Law also serves this purpose, because the sustainable economic growth cannot be envisaged without the reduction of public debt. The same is true for societal indebtedness, the gravity of which came to the foreground following the start of the economic crisis. The development of financial literacy in this area should be supported, as higher levels of financial literacy would lead to citizens' making healthy and balanced financial decisions, which, in turn, would promote financial sustainability at the level of the individual. It is important from the perspectives of environmental and economic sustainability to ensure that public services are based on realistic pricing and an appropriate underlying prime cost calculation. A similarly important aspect is laying down the foundations for the ability of self-learning and self-development. These are all areas that the SAO serves in some form or other, through one of its activities. This includes but is not limited to the risk analysis system that supports audit topic selection, the audit of the areas that have an effect on public debt and competitiveness, supporting the functions of the Fiscal Council, undertaking the role of catalyst in the development of financial literacy, self-tests created for church institutions and municipalities and the reinforcement of the integrity of the public sector. The SAO's activities support sustainable development in the key areas shown in Chart 2.

Chart 2

MAIN AREAS OF SUPPORTING SUSTAINABLE DEVELOPMENT



For the good of society

Sustainable development cannot exist without social sustainability, and the interactions of society and the economy cannot be disregarded either. One typical example of this is the improvement of financial literacy, which, in addition to being a fundamental social interest, also impacts the whole of the country's economy. At the same time, there are certain other areas which, by impacting various pillars of sustainable development, are able to preserve and increase environmental, social and economic resources. Through the application of the holistic approach, the SAO strives to audit the systems – and the institutions comprising these systems – that determine the sustainability of these resources. In connection with this, it should be noted that in line with the National

Sustainable Development Framework Strategy, the SAO views human resources as fundamental values. In terms of the sustainability of the future, our children qualify as the most important human resources; therefore, it makes all the difference how the institutional system serving the growth of their intellectual capital functions. Accordingly, in 2014 the SAO launched audits of state and church-controlled higher education institutions. The audit of these two areas by the SAO was justified from two different aspects. On the one hand, it is important that these institutions manage the public funds spent on their operation in a regular and sustainable manner. On the other, it is a matter of trust that institutions of higher education teach our children as credible organisations that lead by example. It is clear that institutions which fail to responsibly manage the public assets and public funds entrusted to them cannot be expected to provide value-based education to the generations of the future or to pass on compliant behaviour. In addition to promoting sustainable economic management, it was also our goal to restore and strengthen the social trust in higher education institutions by detecting errors and irregularities and making recommendations concerning their correction. Moreover, with our audits we wished to highlight the fact that establishing a sustainable model is important for higher education institutions as well, as these institutions impact economic environment and citizens' quality of life. Several aspects must be considered when setting up such a model, from social convergence through aspects of rural development to demographic processes. For similar reasons, the SAO also audited organisations responsible for preserving and nurturing cultural values, including theatres, the National Office of Cultural Heritage and the Hungarian Institute for Culture and Art.

Value creation and change in attitude

The mission of the SAO is to promote the transparency and regularity of public finances with its value creating audits performed on a solid professional basis, thus contributing to 'good governance'. SAO understands added value as the result generated by the completed audit, which leads to tangible savings in the use of public funds, improvements in responsible financial management, and the detection, disclosure and sharing of good practices. In recent years, this approach has become integrated into the organisation's life at the system level, implemented in practice through consciously planned internal processes. At the same time, in addition to auditing, added value can also be construed in respect of advisory activities. This is partly due to the fact that the result achieved with the help of the value added can only be sustained in the long term if accompanied by a change in attitude. The primary opportunity for the SAO to promote this lies in its advisory activity. A good example is the Integrity survey, which the SAO has conducted for the fourth time in 2014. In connection with this, one of the aspects of the change in attitude is that by introducing a culture of integrity, a committed management stratum using public funds has emerged in the fight against corruption in addition to supervisory bodies and authorities, which may be the key to success. In developing the voluntary self-test system for local and minority governments as well as church institutions, the SAO aimed at a similar paradigm shift. The SAO has limited capacity, which prevents it from reaching every single one of the thousands of auditable organisations. For this reason, it is important to ensure that the creation of compliant and regular operations and use of public funds does not depend primarily on the audit organisations, since ensuring those is the task and responsibility of the managers of the individual organisations. Relying on the related audits, the SAO developed a system of self-testing that serves as a guideline, along which the managers of the organisations and institutions concerned can carry out self-audits and can start correcting the errors and deficiencies on their own. Therefore, similarly to the Integrity survey, the goal in this case was also to make sure that in addition to the organisations responsible for auditing and legal compliance supervision, a group of managers in the thousands emerge, who will take responsibility and start restoring regular operations on their own.

Competitiveness and sustainable economic growth

The SAO pays particular attention to supporting compliance with the debt rules set forth by the Fundamental Law and the Stability Act through its activities. Accordingly, as part of an analysis process, we started to identify areas

the audit of which could facilitate the fulfilment of constitutional obligations concerning the public debt ratio. This analysis covered both the numerator and the denominator of the public debt ratio. In this respect, we should also emphasise that the public debt ratio could also decrease through an increase in GDP, which is included the denominator and expresses the country's economic performance. This, essentially, involves outgrowing public debt. We believe that the supreme audit institution of a country does indeed have the opportunity to facilitate GDP growth through its audits. In the long run, changes in GDP are determined by the given country's economic competitiveness, in other words, it has a crucial role in sustainable economic growth. Through the regulation of the economy and the redistribution of close to a half of domestic GDP, the state largely impacts economic competitiveness. It is in essence through the audit of state measures that the SAO is able to contribute to the improvement of Hungary's economic competitiveness. However, due to the limited capacity of the SAO, we had to ensure compliance with the criteria of efficiency and effectiveness, in other words, we were forced to set priorities among the areas impacting economic competitiveness. By taking these priorities into consideration, we can use available resources to audit areas which can improve the country's competitiveness by creating the greatest added value. In 2014, audits of this area included the audit of the Hungarian Competition Authority and the organisations participating in practical vocational training.

Audit of public service providers

The SAO is on the side of citizens and supports 'good governance' through its audits. These two premises are closely linked to the audit of public service providers as the substantiation of the pricing applied by such economic entities is important for society and the National Assembly as well. Our experiences to date, however, show that the internal regulation of prime cost calculation, which serves as the basis of pricing, was not in compliance with legal provisions in each and every case. Taking the above as a starting point, we have made the assessment of the regulation of prime cost calculation one of the focus areas of the audit of economic entities majority-owned (or partly owned) by the state or local governments. This, on the one hand, allows the SAO to contribute to laying the foundation for the household utility charge reduction and on the other, to promote the improvement of the reliability and transparency of the preliminary and follow up calculation determining the price of public services. The significance of prime cost calculation should also be assessed from the aspect of sustainable development. Improper prime cost calculation carries more risk than the simple overpricing of a given public service. It could be equally dangerous if a given public service were to be underpriced due to the deficiencies of prime cost calculation. In the latter case, the following problem could arise: if, for instance, the price of a public service is too low, this may sooner or later lead to operating losses which then must be compensated by the owner (the state or the local government) when the capital balance has been upset. Still, it should be emphasised that the above set of problems must be handled depending on the type of the given public service, but it is very important that the economic entity providing the public service strive to achieve sustainable financial management. The basis of this is appropriate pricing, to accomplish which companies must be aware of what their activities cost. The information needed for this is supposed to be provided by prime cost calculation. Our past audit experiences also drew attention to problems such as hidden indebtedness, one of the main causes of which is the fact that investments exceeding the rate of amortisation failed to happen. In line with the above, in 2014 we continued to use considerable capacities to audit the activities aimed at the preservation and increase of asset value by economic entities owned or majority-owned by the state or local governments.

Auditing auditors

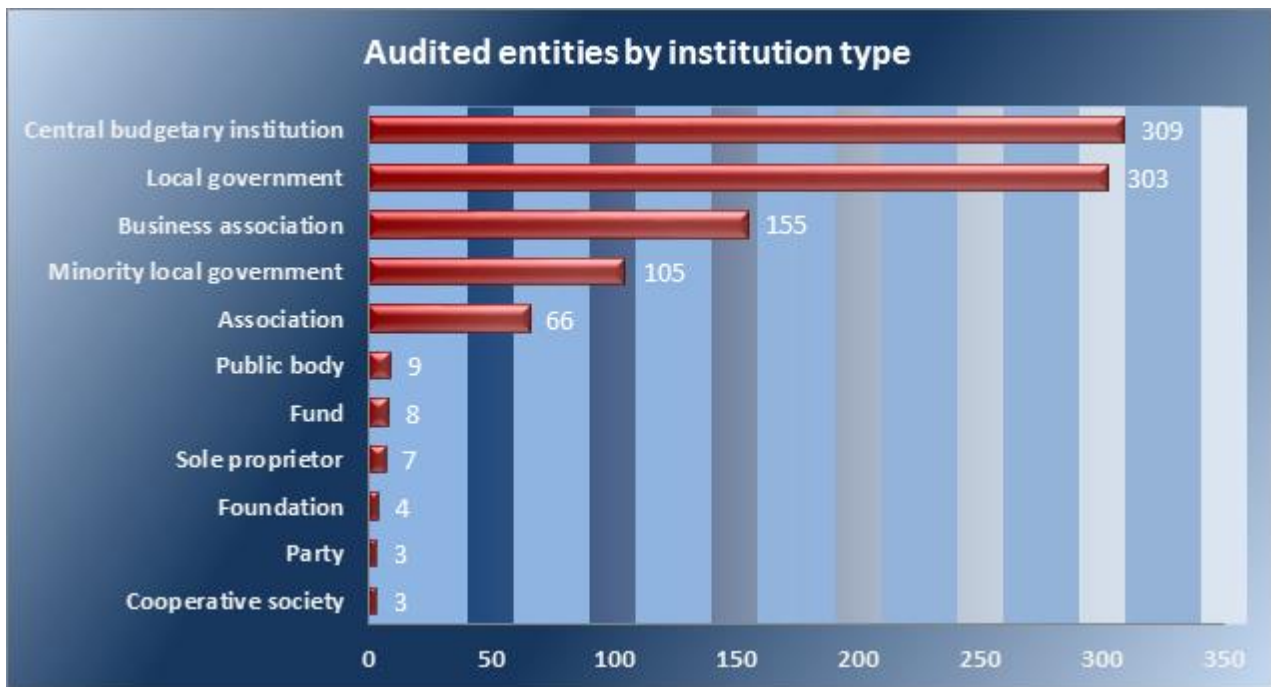
The SAO sees a strategic challenge in the identification of tools that increase the effectiveness and efficiency of audits. Typically, one such tool is the audit of auditors, because the SAO's options are limited due to its limited capacity and the high number of auditable organisations. Such audits focus on the various elements of the related audit safety net and support the improvement of the operation of the organisation responsible for auditing the

given area, so that the impact of our audits is exponential. Moreover, by detecting the errors and deficiencies in the operation of other audit organisations and by making recommendations to correct these, we are able to promote an increase in the efficiency and effectiveness of audit activities. The SAO initiated audits of auditors in areas and at institutions that play key roles in respect of the country’s economic development and performance and which are also key players with regard to national competitiveness. Accordingly, these audits also covered organisations participating in audits on the use of domestic and EU funds, the supervision of competition, and audits on normative state subsidies.

Audited entities

During the audits linked to SAO reports published in 2014, the SAO reached a total of 966 organisations compared to the 569 audited entities in 2013. The number of audited entities increased by more than 70%. Among other factors, the growth is associated with a sharp increase in the number of local government audits, as last year the SAO reached 408 local governments as opposed to just 249 in 2013. This rise is primarily due to the audit of minority local governments. In addition, in 2014 the SAO audited considerably more (21) companies majority-owned by local governments, up from a mere 3 in 2013. There was also a relevant increase in the audit of companies operating in the private sector. This rise was the result of the continuing audits of economic chambers, as part of which the SAO conducted audits at 113 companies organising practical training courses last year, as opposed to the 72 in 2013. Compared to 2013, a significant increase was also observed in respect of central budgetary institutions. Apart from the increase in the number of organisations audited as part of final accounts audits, this is also the result of the audit of higher education institutions and that of certain institutions of the central subsystem. With respect to 2014, the breakdown of audited entities by institution type is shown in Chart 3.

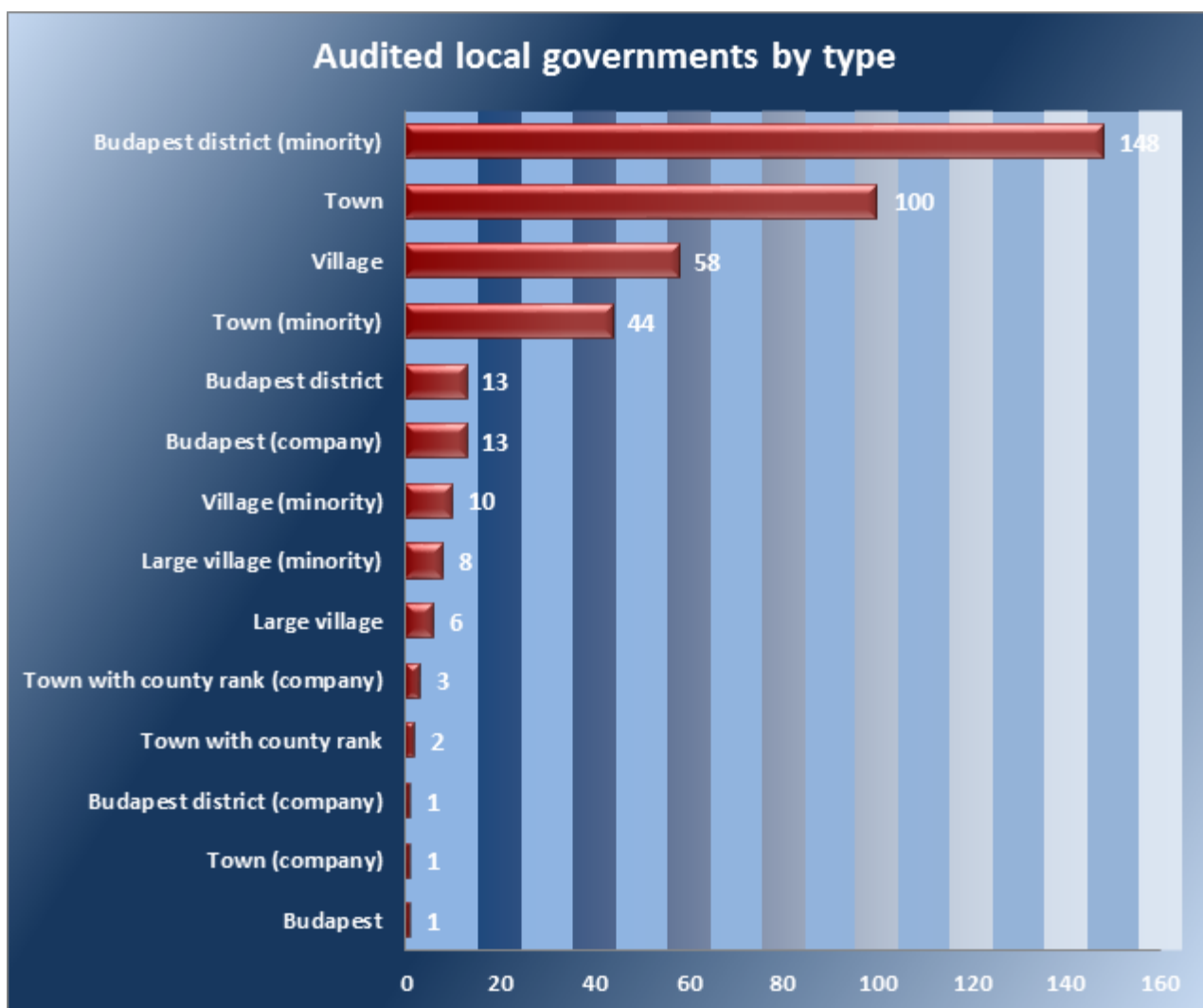
Chart 3



More than 60% of audited entities were central budgetary institutions and local governments. Most of the central budgetary institutions were affected by final accounts audits (226, representing more than 70% of this particular type of audited entity). 95% of audited companies were companies organising practical training courses or companies majority-owned by local governments. The 408 local governments audited in 2014 are shown in Chart 4 by type (separately displaying audits concerning minority local governments and companies). More than a half of the audited local governments were minority local governments. In addition, the follow-up audit conducted on the basis of the SAO’s first independent audit programme affected 62 local governments. The scope of audits on

the performance of functions by local government associations included 66 associations and 44 local governments. Of the 408 local governments audited, the SAO reached 301 with thematic audits. No further increase is expected in the number of audited entities in the coming years as many of the thematic audits have been concluded. This means that the SAO has reached a number of audits sufficient for the summary and analysis of the audit experiences related to the given topic. Besides, therefore, recommendations based on findings that required action, which represent direct utilisation, analyses prepared as part of secondary utilisation also moved to the foreground (in connection with the audit of minority local governments and audits of the internal control systems of local governments). Of course, fulfilment is not just embodied by analyses, but also in good practices that have been shared constantly in recent years as well as in the laying down of the foundations of self-learning and self-development. These are also tools that allow minority and local governments to correct regulatory deficiencies independent of the SAO's audits. The self-test system created by the SAO equips the heads of local governments with a tool which, functioning as a sort of safety belt, provides assistance for the appropriate setup of the internal control system, which is one of the foundations of integrity, as well as that of responsible financial management.

Chart 4



SAO PROFESSIONAL ACTIVITIES IN 2014

As a result of the transformation commenced in 2011, today the SAO performs its audit, advisory and analytical tasks based on clearly separated, standardised, regulated, controlled and consciously implemented processes.

1. Utilisation of reports

The utilisation of SAO reports can be observed at multiple levels and among a wide range of users, from the National Assembly through audited entities to citizens. This, however, was only possible through conscious planning, by taking international standards into consideration and by adopting the utilisation approach within the organisation.

1.1. Supporting the work of the National Assembly

It is the primary aspiration of the SAO to support the National Assembly and contribute to 'good governance' and a well-governed state through its audits and recommendations. As a result, National Assembly committees have discussed several SAO reports and documents.

OUR PERFORMANCE IN NUMBERS WITH RESPECT TO SUPPORTING THE WORK OF THE NATIONAL ASSEMBLY

158	SAO documents discussed by National Assembly committees
31	committee meetings where SAO documents were discussed
20	session days where MPs referenced the SAO



Cooperation with the National Assembly

In 2014, the SAO enhanced its cooperation with the National Assembly. In legislation and during the work of National Assembly committees, MPs have increasingly relied on the findings and recommendations contained in SAO reports. They referenced SAO reports, findings and activity on 20 parliamentary session days. Furthermore, the National Assembly discussed three SAO documents carrying a parliamentary document number. These all indicate that our activity is increasingly utilised in the work of the National Assembly. Compared to last year, this report has been expanded with an additional new element in the spirit of 'good governance'. As part of the presentation of its audit activity, the SAO formulated proposals to the National Assembly and MPs in order to widen the range of vision and to present the aspects relevant to the various audit areas.

SAO documents presented to National Assembly committees

The report on the SAO's activities in 2013 was discussed by the Committee on Economics before being debated by the plenary session of the National Assembly. A total of 158 SAO documents were submitted to National Assembly committees which were discussed by MPs at 31 committee meetings. The SAO report on the 2013 central budget and the audit of its implementation, as well as the SAO opinion on the bill on the 2015 central budget of Hungary were submitted to Parliamentary committees, and were discussed at a total of 29 National Assembly committee meetings. The SAO also supported the work of committees through its audits of minority local governments, as in December 2014, the Hungarian Minorities Committee of the National Assembly placed on its agenda and discussed the summary study on the audit of minority



local governments. At the committee meeting – in line with the nature of thematic audits – the Vice President of the SAO presented the summarised experiences of 155 completed audits.

Parliamentary addresses

In the interest of the utilisation of SAO reports, the President of the SAO spoke at parliamentary debates on a number of bills, presenting relevant SAO findings and experiences. In addition, in the spirit of close cooperation, László Domokos also attended the meeting of the chairmen of Parliamentary committees, where he presented the SAO’s anti-corruption activities, follow-up audit experiences and objectives, as well as the studies and analyses prepared as part of advisory activity, along with related future directions. The president of the SAO gave a statement on the final accounts bill, the relevant SAO report as well as the analysis of the macro-economic correlations of 2013 budgetary processes. Again in 2014, the SAO opinion related to the bill on the 2015 budget of Hungary was presented as part of a presidential statement. Last year, the President of the SAO also spoke at the parliamentary debate on the bill on scientific research, development and innovation.

1.2. The utilisation of reports during legislative processes

The Strategy of the SAO also sets out that the National Assembly plays a prominent and priority role in the utilisation of the reports. Accordingly, last year the SAO also supported the National Assembly with information materials, and two reports were directly utilised in legislature. We also take part in the legislative process, in the broad sense, through our advisory activity, as we have provided support to the legislator by giving opinions on several bills. We are continuously monitoring the legislator’s amendment intentions in order to support legislation through our recommendations and advice and by indicating potential loopholes and regulatory deficiencies, with the added objective that our organisation be able to respond in time to any challenges arising out of changes in the legal environment.

OUR PERFORMANCE IN NUMBERS WITH RESPECT TO SUPPORTING FOR LEGISLATIVE PROCESSES

2	SAO reports utilised directly in laws
9	legal regulations with opinions provided on

The utilisation of reports related to environmental protection

Last year saw two SAO reports utilised directly in legislature. In November of 2014, the National Assembly adopted Act LXXXVII of 2014 on the amendment of certain acts of legislation in the context of the further development of the National Environmental Protection Information System. In the past few years, the SAO carried out audits in two important areas of environmental protection and drafted recommendations on the development of the information system. In its report no. 1049 entitled “Report on the audit of tasks related to the protection of waters and water management”, the SAO put forth a recommendation – in the interest of ensuring data administration and querying that comply with the relevant international and domestic requirements – on the development of a records systems to evaluate and record the status of surface and ground waters. In report no. 1283 entitled “Report on the audit of the enforcement of European Union legislation on waste shipment”, the SAO put forth a recommendation to create a records system that ensures accurate data supply, and allows for the querying of waste shipment data according to different parameters in the interest of complying with international and domestic

requests for data reporting. The bill on the amendment of certain acts of legislation in the context of the further development of the National Environmental Protection Information System contains provisions that are in line with the recommendations of the SAO.

Information materials for the National Assembly

The SAO's relationship with the National Assembly was characterised by flexibility and the exchange and sharing of experience. The SAO supported the activities of the National Assembly by means of information materials that were used during the general debates about the bill on the "*Amendment of certain acts of legislation in the context of the further development of the National Environmental Protection Information System*", and the proposal on the amendment of certain acts of legislation of a financial nature affecting deposit insurance and the financial intermediary system. At the same time, the president of the SAO also informed the National Assembly about the technical support to be provided to the Ukrainian State Audit Office in connection with the audit of the use of European Union funds. The SAO has also supported the work of the National Assembly through the disclosure of SAO reports and the findings, correlations and recommendations contained therein.

Providing opinions on legal regulations

In addition to supporting the National Assembly and its committees in legislature, the SAO also provides opinions on draft legislation as part of its advisory activity. In 2014, the SAO received a total of 9 bills from four ministries, and provided opinions on each. Additionally, the SAO also monitors the draft legislative amendments included in the series, within the framework of which – in addition to the previously mentioned legislative amendments – it reviewed another 24 draft legislative amendments in the parliamentary phase. The legislative amendments on which the SAO provided opinions last year included laws, government decrees, as well as legal documents set in a single statutory amendment which, however, concerned several laws and decrees. The SAO gave opinions on a number of major bills in the most diverse range of topics. Among others, it provided an opinion about the bill on the substantiation-related amendment of the Act on the 2015 Central Budget of Hungary, the Government Decree on the implementation of the Act on Public Finances, and the proposal on the amendment of the Government Decree on Public Finances Accounting.

1.3. SAO recommendations and action plans

The foundations of the utilisation of SAO reports by audited entities are the recommendations based on findings with obligations to take action and the action plan prepared by the audited entity's manager. The audited entity's manager is bound by a legal obligation to cooperate, non-compliance with which may be penalised by the SAO pursuant to its legal mandate.

OUR PERFORMANCE IN NUMBERS WITH RESPECT TO RECOMMENDATIONS AND ACTION PLANS

2,642	recommendations based on findings with obligations to take action
574	addressees
495	opinions provided on action plans

SAO recommendations and action plans based on findings with obligations to take action

The past few years have been characterised by a steady increase in the number of recommendations based on key findings and action plans, the handling of which required the use of efficient, quality-oriented and standardised internal procedures. The SAO has also created the organisational guarantees necessary for the enforcement of the law, which allowed for the appropriate handling of the increasing number of tasks related to cooperation and action obligations. In the 233 SAO reports published in 2014, the SAO formulated a total of 2,642 recommendations to the audited entities with obligations to take action. Of these 2,376 were recommendations based on findings with obligations to take action recorded in an SAO report made to municipalities and local government-owned companies, while 266 were not related to local governments.

Chart 5



OUR PERFORMANCE IN NUMBERS WITH RESPECT TO RECOMMENDATIONS MADE TO LOCAL GOVERNMENTS

2,376	recommendations
104	recommendations in total to local government companies
15	recommendations on average during audits of internal control systems

Chart 5 shows the number of recommendations based on findings with obligations to take action, and their addressees, for 2013 and 2014. Therefore, in 2014 the SAO formulated more recommendations in the course of its local government audits than in the whole of 2013 altogether. This is mainly the result of the increase in the number of audits related to minority local governments and companies majority-owned by local governments. The SAO formulated an average of 14 recommendations in the SAO reports related to the audit of minority local governments. In 2014, the SAO initiated measures pursuant to Point a) of Article 33(3) of the SAO Act in only two cases. In one of these cases, the SAO was forced to turn to the competent prosecutor's office due to the violation of the obligation to take action, while in the other on account of the violation of obligations to cooperate in relation to data reporting. Last year the SAO conducted the assessment of a total of 495 action plans, based on pre-determined criteria.

1.4. Professional relations

The SAO fosters and develops its relationships with professional organisations. As part of this effort, SAO managers presented the audit experiences of the SAO on several expert forums, thereby facilitating the quick utilisation of the reports. In 2014, requests to share audit experiences were once again received regularly from professional organisations representing audited entities, internal auditors, and other audit organisations.



Sharing of audit experiences

In 2014, the managers of the SAO shared the results of government auditing as well as viable good practices on several forums. Thanks to that effort, the budgetary institutions under the Ministry of Human Resources chapter, the internal auditors of courts, and the employees of the Central Administration of National Pension Insurance were able to learn about the related audit experiences within the framework of different meetings and conferences. The SAO strives to share with any new players joining public fund utilisation a summary of the audit findings that concern their responsibilities. As a result, the competent supervisory manager of the SAO gave a presentation at a conference organised – for the newly appointed chancellors of state-owned institutions of higher education – by the Ministry of Human Resources in November of 2014. At that conference, the supervisory manager described the areas where the SAO considers – based on the related audit experience – the active participation of chancellors important.



Cooperation network

In 2014, the SAO had 24 cooperation agreements; 12 with higher education institutions and 12 with professional organisations. The SAO's cooperation network grew in 2014, as three new agreements were concluded with cooperation partners. Last year, the SAO signed cooperation agreements with both the Hungarian Academy of Sciences and the Hungarian member organisation of the Information Systems Audit and Control Association (ISACA). The purpose of the latter agreement was to contribute to the dissemination of the latest IT auditing and IT security methodologies and to support the transparent and secure operation of the financial and economic systems of public entities through the improvement of the IT audits of the SAO. The most active cooperation efforts involving the highest number of partners were the agreements and MoUs on the development of Financial Literacy (two MoUs and one cooperation agreement). The network created is closely linked to the utilisation of the work of the SAO, which requires continuous knowledge sharing as well as identifying areas of common interest that would make even greater achievements possible. At the same time, the MoUs promote utilisation at the societal level, because they provide a framework for the implementation of initiatives designed to create added value, such as that related to the fight against corruption and the broad-based enhancement of financial literacy.

OUR PERFORMANCE IN NUMBERS WITH RESPECT TO PROFESSIONAL RELATIONS

24	cooperation agreements
18	lectures at external professional events
3	new agreements

1.5. Legal consequences related to audits

The SAO, as an agency-type audit organisation, sends indications to investigative authorities as well as other competent bodies. The legal conditions of this form of cooperation are primarily established by the SAO Act, but other laws also allow the SAO to open legal remedy proceedings.

What are indications?

Pursuant to Article 5(2) of Act CLXIII Of 2011 on the Prosecution Service, prosecutors shall evaluate petitions, announcements of public interest and indications of infringements (hereinafter: petition) against official decisions, measures and omissions in contravention of the law. In the event prosecutors have no competence to investigate a petition addressed to them, they shall ensure its transfer to a competent organ.

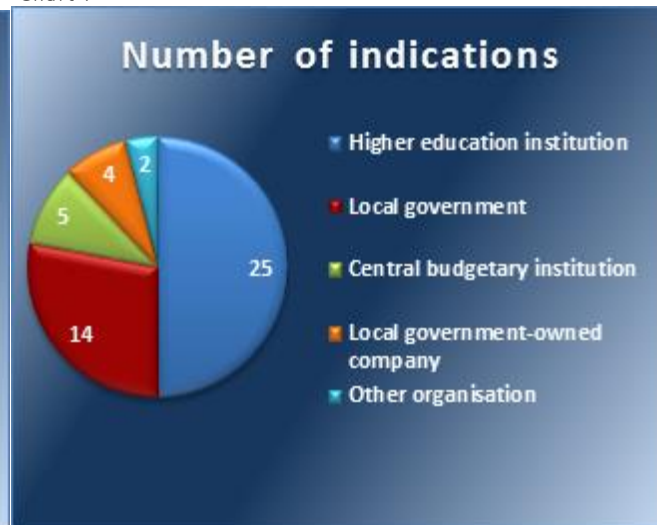
Personal liability

Articles 1(5) and 30(1) of the SAO Act enable the SAO to indicate to the competent investigative authorities if during any of its audits it discovers circumstances suggesting personal liability. In 2014, the SAO sent indications to investigative authorities a total of 50 times. Following an indication by the SAO, the investigation is conducted by the competent investigative authorities. In some cases, if further investigation is required, the SAO provides further data upon request by the given investigative authority. 50% of the indications sent arose during audits of higher education institutions, 28% during local government audits, 10% during audits of central budgetary institutions, 8% during audits of companies owned by local governments and 4% during the audit of other organisations. Chart 6 shows the change in the number of indications sent to the Prosecutors' Office, while Chart 7 shows the distribution of these indications by institution type.

Chart 6



Chart 7



OUR PERFORMANCE IN NUMBERS WITH RESPECT TO RELATIONS WITH AUTHORITIES

50	indications to the Prosecutors' Office
40	responses to official requests
21	legal remedy proceedings opened

Opening of public procurement legal remedy proceedings

The SAO exercised its lawful right to open public procurement legal remedy proceedings in 21 instances in 2014. Moreover, in the course of our audits, we detected 19 public procurement irregularities, where a legal remedy option was no longer available, having regard to the lapse of the statute of limitations period as laid down in the Act on Public Procurement. As of 1 January 2015, Article 140(2) of the Act on Public Procurement has been amended to the effect that the subjective deadline available for the opening of a legal remedy proceedings has been extended by 30 days, which means that it has been increased to 60 days. In the public procurement cases where legal remedy proceedings had been opened, we found irregularities in breach of the provisions of the Act on Public Procurement at a value of over HUF 8 billion. In 16 of

What are requests from investigative authorities?

Pursuant to Article 71(1) of Act XIX of 1998 on Criminal Proceedings, the court, the prosecutor and the investigating authority may contact central and local government agencies, authorities, public bodies, economic entities, foundations, public foundations and associations to request the supply or transmission of information, data or documents.

What are requests from tax authorities?

In the course of exercising its investigative role, the National Tax and Customs Administration may lodge requests with the SAO – pursuant to the relevant legal provision – in order to receive information, supply and transfer data, and to have the relevant documents made available to it. Therefore, a request from tax authorities (from the National Tax and Customs Administration) is a form of a request from investigative authorities.

What is legal compliance supervision?

Pursuant to Article 34(4) of the Fundamental Law, “The Government shall ensure supervision of the legality of local governments through the capital or county government offices.” Pursuant to Articles 132(2) and (3) of Act CLXXXIX of 2011 on the Local Governments of Hungary, the purpose of a government office’s legal compliance supervision is to ensure the legally compliant operation of a local government. As part of the proceedings of legal compliance supervision, the government office investigates the legality of the operation and decision-making process of the local government, the legality of its decisions as well as compliance with its decision-making and task performance obligations.

the 21 legal remedy proceedings initiated we found that public procurement procedure(s) were unlawfully omitted, which represents 76.2% of all legal remedy proceedings. In other cases we found amendments to the contracts at the end of the public procurement procedure and the omission of the publication of an announcement on the amendment (in four cases); we also opened legal remedy proceedings due to the fact that contractual amounts had been modified in a way that they were no longer in line with the offered amounts (in one case).

Utilisation: investigations in progress

Currently, there are 45 acts under investigation based on the reports of the SAO – also covering previous years – to the investigative authorities. The status of the cases is continuously being updated based on feedback from the investigative authorities. Investigations were ordered on suspicion of the criminal offences listed in the diagram on Chart 8.

Chart 8



Cooperation with investigative authorities

In 2014, the SAO responded to 40 official requests from investigative authorities (9 of these from the tax authorities), through which we provided substantial assistance to investigations in progress.

Requests for legal compliance supervision

In the context of its audits, in 2014 the SAO notified – solely in relation to the audit of local governments – the capital and county government offices – responsible for the legal compliance supervision of the local government – in connection with 29 cases. The capital and county government offices needed to be notified because the auditors arrived at factual findings that could be best remedied by the capital and county government offices – responsible for the legal compliance supervision of the local government – as they have more direct and therefore more efficient means – due to its supervisory role – than the SAO. 62% of the notifications sent to county and capital government offices were related to local government audits.

1.6. Social utilisation and publicity

Social utilisation is also a matter of importance in the international world of state audit offices; it is a matter that has been the topic of many congresses organised by the International Organization of Supreme Audit Institutions (INTOSAI). *As a result, in October 2013, the Beijing congress of INTOSAI approved the ISSAI 12 international standard entitled “The Value and Benefits of Supreme Audit Institutions – making a difference to the lives of citizens”. The SAO’s commitment to the utilisation approach is well illustrated by the fact that not more than two months later, taking the international standard into consideration, the SAO adopted the methodology document entitled “The basic principles of the utilisation of the SAO’s work” as one of the official rules of its audits. The SAO refers to the basic principles for guidance during the performance of all of its activities and internal procedures, focusing, in particular on following up on implementation. The other two important aspects of social utilisation are publicity and the enhanced support of value creating initiatives.*

What is added value as interpreted by the SAO?

The result generated by the an audit completed by the SAO, which leads to tangible savings in the use of public funds, improvements in responsible financial management, and the detection, disclosure and sharing of good practices.

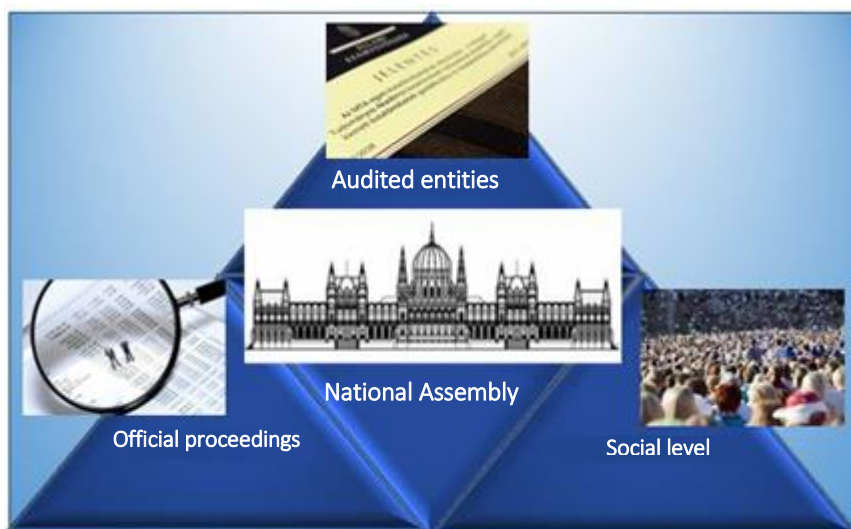
Utilisation of the SAO’s work

All the three groups of the related basic principles of the SAO point in one direction: social utilisation, creating added value at the level of society. As a result, the basic principles cover multiple areas. The SAO informs the people about the use of public monies through its auditing related communication activity, thereby enhancing public confidence and promoting the protection of citizens’ interests. Another key consideration during planning is ensuring that the SAO create added value following the designated directions of auditing and thereby driving changes that the citizens can sense in the course of their everyday lives. It is an expectation reflected in the basic principles that the SAO provide, in terms of its operation, an example that the public entities can follow. The utilisation model of audits is shown in Chart 9.

Chart 9

What is utilisation?

One way to utilise reports is for the audited entities to take measures, causing their financial management and operation to change based on the SAO findings. A priority level of utilisation involves the integration of the reported experiences into legal regulations through the legislative work of the National Assembly. In another form of utilisation, the SAO opens official proceedings based on its findings. The social level is an important element of utilisation, and through our reports we provide information to citizens on how their tax forints are used.



Utilisation-centred communication

In 2014, the communication activity of the SAO focused on the utilisation of the organisation’s work, on the active flow of information and on increasing clarity. Last year, there were a total of 980 new news items and articles published on the SAO News Portal, which averages 4 news items per business day. The majority of the articles published were related to audits and direct utilisation, but several news items provided insight into the internal events and operation of the organisation. News articles published on the SAO News Portal were directly referred to in the press on several occasions. In addition, in recent years new elements have gradually been integrated into the structure of the SAONews Portal in the interest of more efficient support for the utilisation of the SAO’s work. Typical examples are the utilisation interview column and highlighted utilisation news. One of last year’s outstanding results was the fact that the SAO has revamped the format of the press summaries related to the reports, which has enabled it to prepare press materials that are more concise and clear than before and more readily usable by the media.

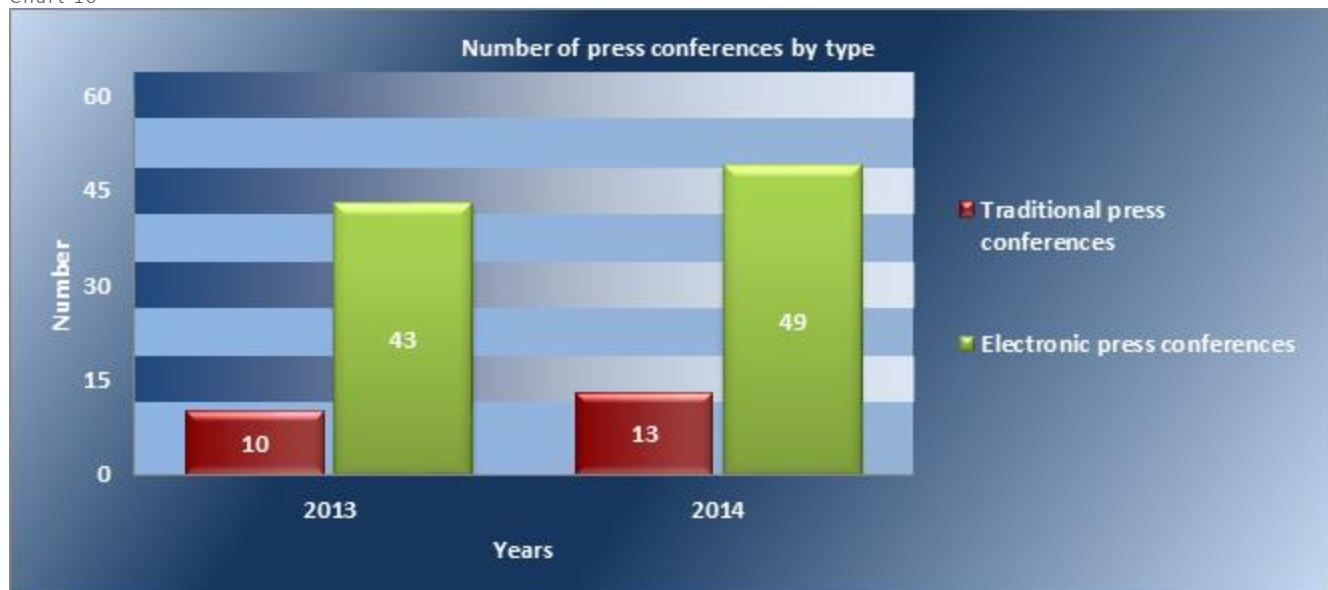
What are electronic press conferences?

Some of our auditing activities are linked to the local level (for instance audits of local governments, local schools or hospitals). A few days before these reports are made public, we notify the local and county level media outlets, who then can make enquiries by email or telephone. Our staff members supervising the audit are continuously available to answer questions during the specified period (generally for one hour). In addition, we send out press summaries on the given audit in a targeted manner to county and regional press lists, taking the information to a local level.

Press conferences

In 2014, the SAO held a total of 13 press conferences on audits of high public interest. However, we consider it extremely important that citizens and local media outlets get first hand information on the findings of SAO audits of local areas relevant to them as well as on the related recommendations. To accomplish this, in 2014 we continued to hold electronic press conferences related to thematic audits. In the interest of the wide-scale utilisation of audits and communicating these to the public, the SAO organised 49 electronic press conferences last year. Chart 10 shows the changes in the number of traditional and electronic press conferences from 2013 to 2014.

Chart 10

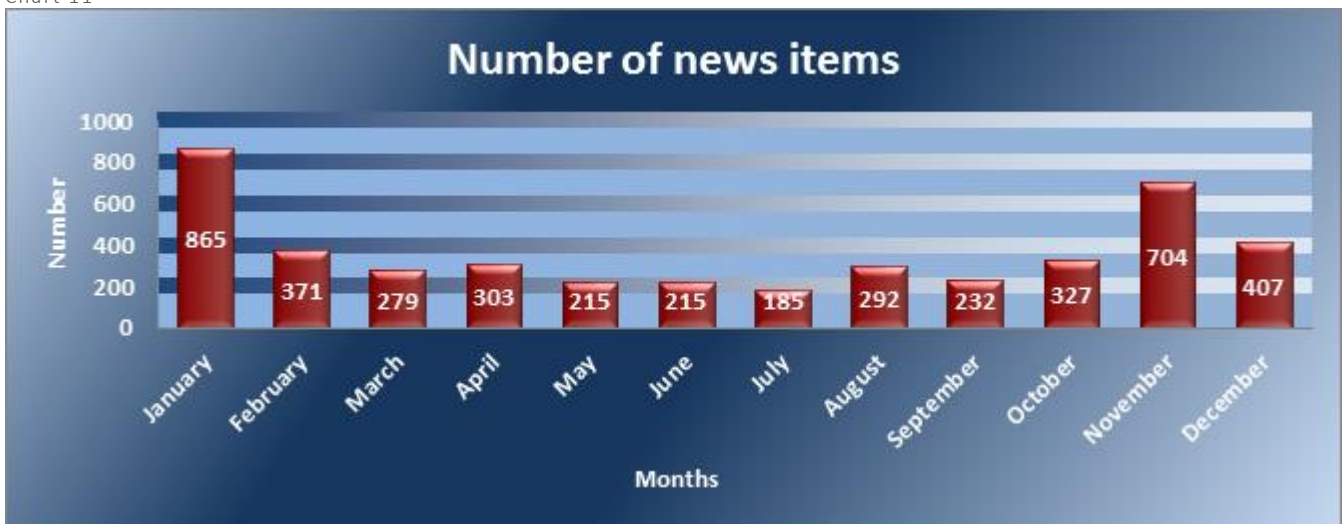


**OUR PERFORMANCE IN NUMBERS
WITH RESPECT TO
COMMUNICATION**

4,395	news items in reviewed Hungarian press
980	news items on the SAO News Portal
49	electronic press conferences
13	traditional press conferences

The format of the press analysis, providing support for the planning and measurement of communication effectiveness, has also been renewed. Based on analysis data, last year a total of 4,395 news items on the SAO were published in the reviewed Hungarian press, shown by month in Chart 11. As far as the distribution of publications is concerned, there were two outstanding periods: January, with 20% of the 2014 news items on the SAO published, and November with 16%. The majority of news articles concerned the elections (Parliamentary, European Parliament, local government) and the audit of campaign funds, the audit of higher education institutions, opinions on the budget and its implementation as well as the final accounts audit. There were an outstandingly high number of articles on the SAO's anti-corruption activities and the Integrity survey, which was a highlighted topic in the month of December. In 2014, the SAO published 44 press releases on its website, and released even more to the press in connection with the disclosure of reports.

Chart 11



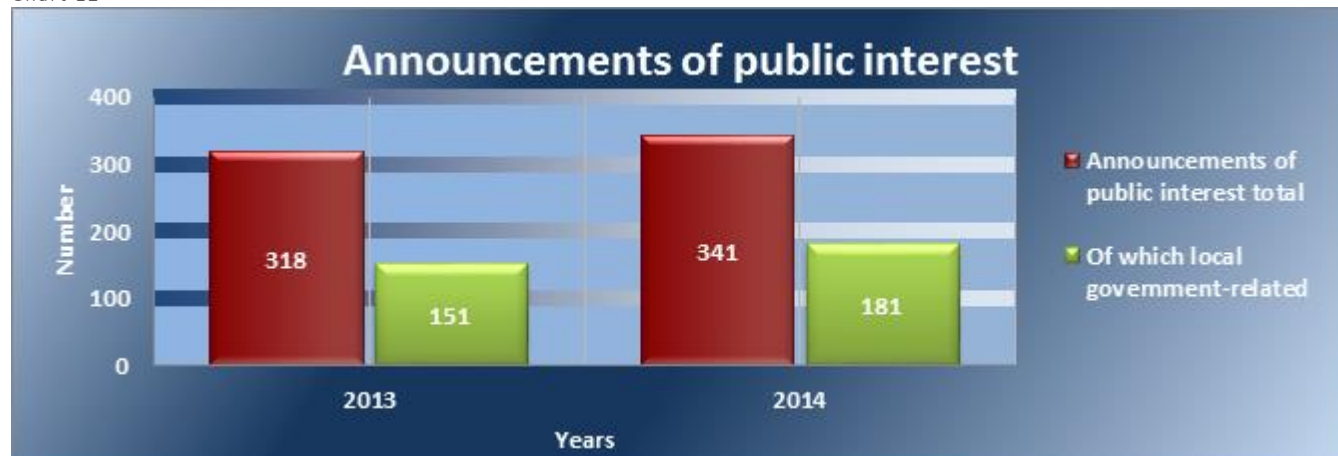
What is an announcement of public interest?

Within the meaning of the relevant act, an announcement of public interest is any report received by the SAO that calls attention to a circumstance the resolution or termination of which serves the interests of the community or society as a whole. An announcement of public interest

In touch with citizens: announcements of public interest

In 2014, the SAO received 341 announcements of public interest, more than half of which were related to asset management by the state and local governments. The SAO is not an authority and as such cannot act on the basis of these announcements, however, during its risk analysis supporting planning processes, it may take the information gained from such announcements of public interest into account. The practical implementation of this is well reflected in the fact that asset management by the state and local governments has become a focus area of SAO audits. Chart 12 shows the changes in the number of announcements of public interest, and local government-related announcements in particular, from 2013 to 2014.

Chart 12



2. Audit topic selection and planning

The goal of the SAO's audits is to provide well-founded, professional and objective answers with regard to the economic and social problems in Hungary, and to do this in a fashion that our audits, by focusing on appropriate issues at the appropriate times, support the promotion of the transparency of public finances and the ensure the sustainable welfare of society. For this purpose, the SAO renewed its planning system from 2011.

2.1. Risk analysis supporting audit topic selection

The topic suggestions required for semi-annual rolling planning (beyond the audit obligations set out by law) are developed by relying on the risk analysis system based on targeted data requesting and data processing, which in turn supports the increasing of the quality and efficiency of audits.

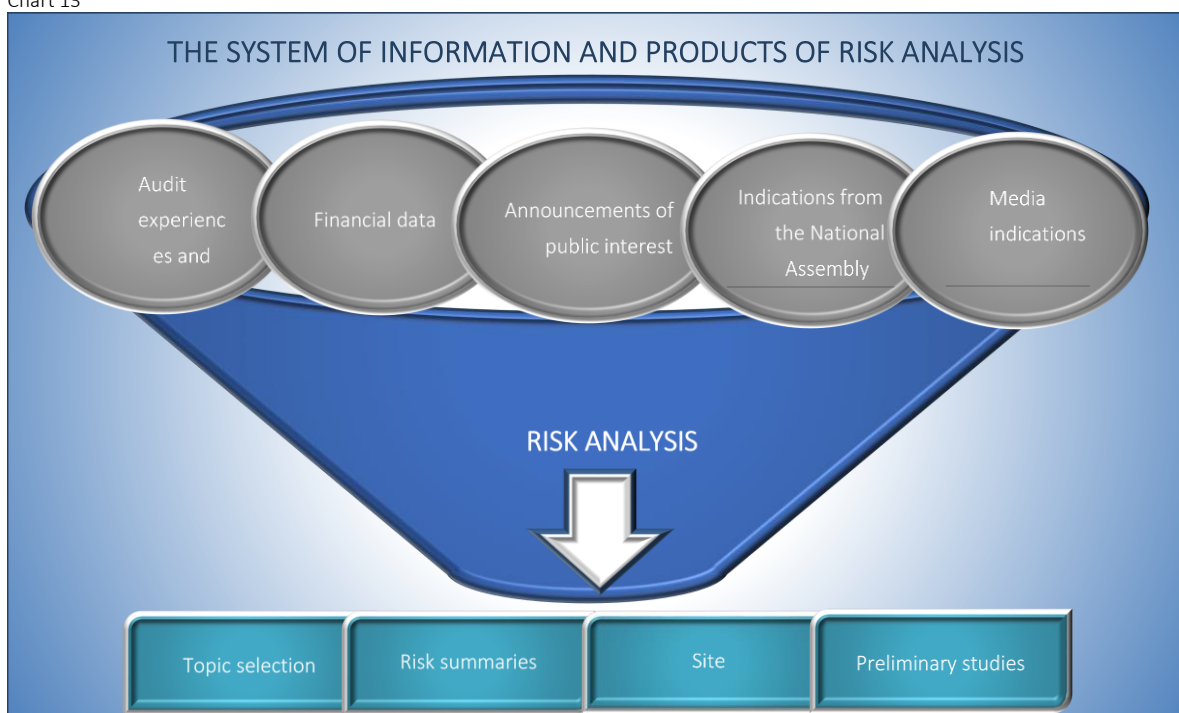
What is rolling planning?

Rolling planning is a flexible planning technology which, by making risk assessment and evaluation continuous, is suitable to provide a temporal approach to planning and implementation with a specific time period shorter than one year. From an audit perspective, this method allows for swifter utilisation, and the performance of audits that are more efficient, more effective and more useful for society.

Risk analysis

During the risk analysis processes related to audit activities, the SAO relies on both internal and external data sources. The internal information base is made up of the experiences of earlier and ongoing audits, as well as indications within the organisation. These are supplemented by external data and indications, primarily from the National Assembly and the media. In addition, the SAO views announcements of public interest and complaints as important external indications as well. The SAO's organisational unit responsible for risk analysis, therefore, uses data analysis from a number of sources and the assessment of risks to support audit topic selection, the preparation of preliminary studies that analyse the audits beforehand, the selection of thematic audit sites, and the detection of their risks. The system is illustrated by Chart 13.

Chart 13



What is the holistic audit approach?

The holistic audit approach involves an audit that covers an entire system or a whole aspect of a system, which – through the detection of systemic errors and findings that require action – is able to contribute to the efficient, effective and economical operation of the system.

Areas less quantifiable, such as integrity, are also integrated, which has been a prominent area of the SAO’s advisory activity for years. The SAO integrated the tools used for the definition of the vulnerability to corruption and the level of the establishment of controls into 14 audit programmes in 2014. The SAO follows the holistic audit approach already during risk analysis.

Preliminary studies

A preliminary study, prepared in the first phase of the audit process, is an audit document that lays the foundation for the preparation of audit programmes, which presents all relevant information concerning the topic, detects the risks, determines the objective, hypothesis and type of a possible audit, its period, the organisations involved, its expected utilisation and the expected costs. The organisational unit responsible for risk analysis also functions as a ‘guardian’ of the targetedness of audits, in other words, expresses an opinion on the targetedness of the audit in respect of the audit programme or draft report under preparation.

2.2. The SAO’s audit plan

The SAO performs its activities on the basis of an audit plan. The compilation of audit plans is fundamentally determined by the audits to be conducted with a frequency set out by law for the SAO. It is a strategic objective that in addition to fulfilling these audit obligations, we also conduct systemic, holistic approach audits in the interest of the transparency of the complex processes of public finances.



Audit plan published at semi-annual intervals

The audit plan of the SAO for the first half of 2014 contained a total of 35 audit titles, of which 4 were audits set out by law, while the remaining 31 were either thematic audits or individual audits. The audit plan of the SAO for the second half of 2014 contained another four audit topics set out by law and five new individual and thematic audit topics. The SAO’s audit plans for 2014 contained a total of 44 audit topics as shown in Chart 14.

Chart 14



What are thematic audits?

Thematic audits are audits conducted on the basis of standard audit programmes with the possibility of the comparative evaluation of the given area, for example, of the most important areas of the operation of local governments and of companies majority-owned by local governments and the state; while as a method of organising audits, it greatly improves the efficiency of organisation.

What are one-stop shop audits?

A 'one-stop shop' audit is an audit implementation and organisation method based on various audit projects (programmes), with planned and scheduled data requests at an audited entity typically with the same auditor, which requires a high level of organisation, coordination and guarantees and which also makes the data reporting tasks of the audited entity more transparent and cost-effective. In addition to increasing efficiency, this method of organisation is also sparing for audited entities.

Thematic audits

Another strategic objective of the SAO is to audit the areas of using public monies previously not covered by auditing, covering a large number of potential auditable entities. The audit procedure introduced in 2012, the so-called thematic audit, played an emphatic role in auditing so-called 'grey areas'. Thematic audits are audits conducted on the basis of standard audit programmes with the possibility of the comparative evaluation of the given area – for example, of the most important areas of the operation of local governments, central institutions, institutions of higher education, and companies majority-owned by local governments and the state. The introduction of the system of thematic audits serves as a tool to increase the efficiency of audit activity. This makes it possible to audit a larger number of organisations as part of the same audit programme.

One-stop shop audits

When the SAO audits an organisation based on various multiple programmes, these audits are conducted as one-stop shop audits. Within the framework of this new auditing procedure, based on several different audit programmes, the data are requested in a planned manner, the audits follow each other in a predetermined sequence usually with the same number of auditors, in a highly organised and coordinated way, using methods of execution and organisation that rely on guarantees. At the same time, this also makes the data reporting tasks of the organisations concerned more transparent and economical. Using the one-stop shop audit method, the SAO is able to use its resources more effectively and efficiently, and thereby is able to better manage taxpayer money.

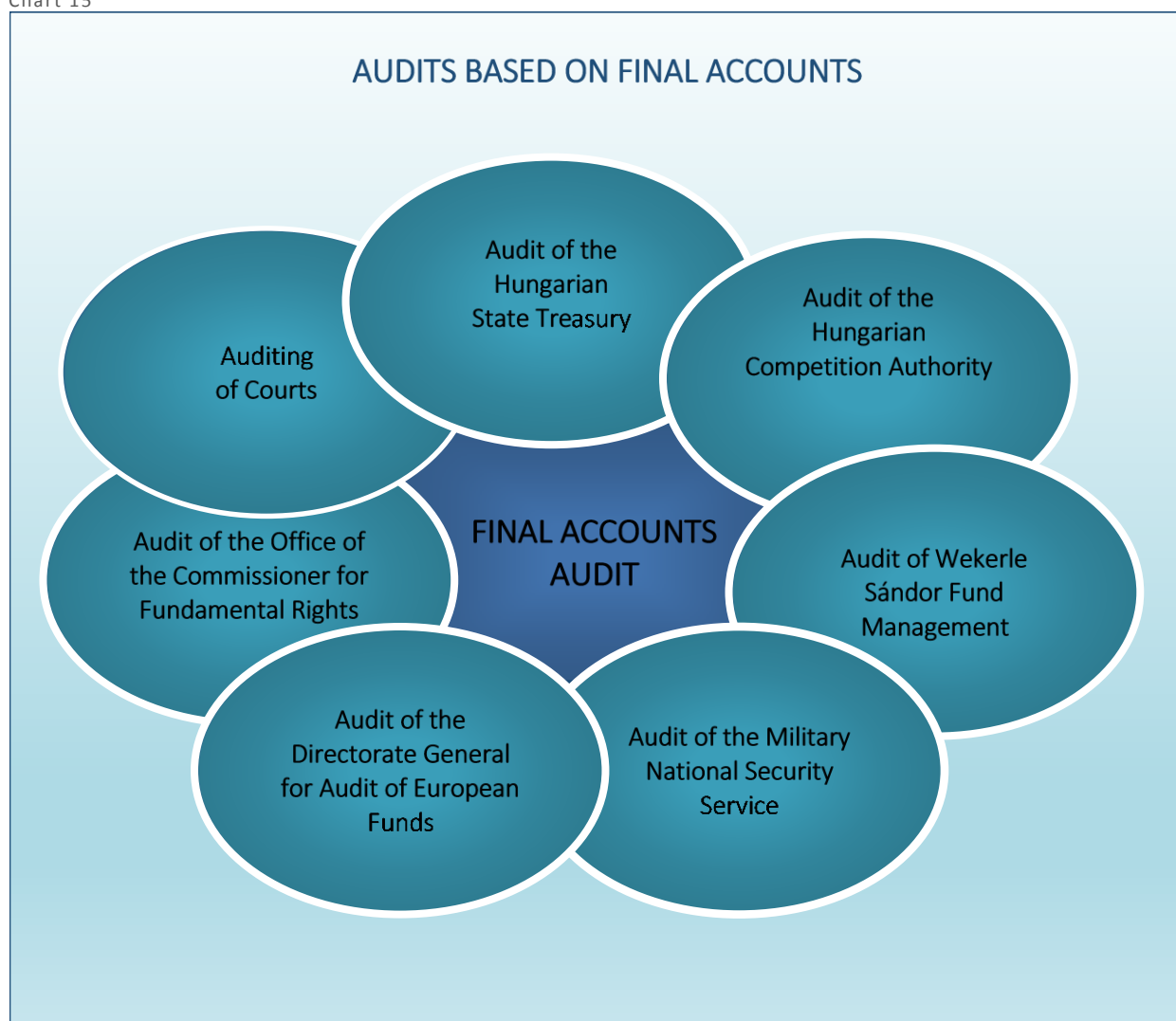
Simplified audit model

The SAO has been operating a simplified audit model since 2013 on a trial basis. An example of this was the follow-up audit of the financial regularity audit of local governments at the end of 2013, which was conducted by the SAO in a simplified procedure, using exclusively electronic data requests. The processing of experiences is continuous in order to perfect simplified audit procedures and to apply these in new areas. We applied the simplified audit procedure in 2014 on a regular basis, which allowed the SAO to reach more sites than it would have been able to with traditional audits, and to establish a comprehensive picture of the risk elements of the control system of a given area. In addition, the SAO uses the findings of simplified audits to identify areas of risk as, for instance, the deficiencies observed in the internal control system forecast problems in the operation and task performance of the audited entity.

3. Audits concerning the central subsystem

When preparing the SAO's audit plan, we enforce the objective laid down in our Strategy that we want to strengthen audits relying on and related to one another. In addition, the efficiency, effectiveness and economy requirements set against our audits also make the harmonisation of audits necessary. The implementation of these can also be seen in the audit of central budgetary institutions. With the audits that are based on the final accounts, the SAO's goal is to further improve the quality and the efficiency of government auditing. Moreover, with this organisational solution, we are striving to create optimal cooperation conditions for the audited entity, to reduce its SAO audit related workload. As of 2013, the SAO has started using thematic audits in certain institutions within the central subsystem. The purpose of this move was to further increase audit coverage by reducing the number of "grey areas" and by evaluating the financial and asset management status of the audited entity. Chart 15 demonstrates the audits that are based on final accounts.

Chart 15



3.1. The audit of final accounts

The audit carried out by the SAO on the implementation of the central budget of the preceding year is the most important task of the SAO. Not only because this yearly task takes up by far the largest auditor capacity among all the individual audits, but also because the credibility of reporting on the implementation of the budget (hereinafter final accounts) is one of the most important characteristics of a constitutional state. The executive branch of government reports to the legislative branch of government by means of the final accounts giving an account of whether the revenue prescribed in the Act on the Central Budget has been collected and the public monies thus received were spent in accordance with the rules and for the purposes determined by the National Assembly. The SAO is suitable to audit the reliability of the reporting on account of its independence of executive powers and its expertise. By conducting the audit, the SAO has fulfilled its tasks set out in Articles 5(1)–(2) and (7) of the SAO Act.

**PERFORMANCE IN NUMBERS
WITH RESPECT TO THE COVERAGE
OF THE FINAL ACCOUNTS AUDIT**

(%)

97.4

For the total revenue of the central budget

90.7

For the total expenditure of the central budget

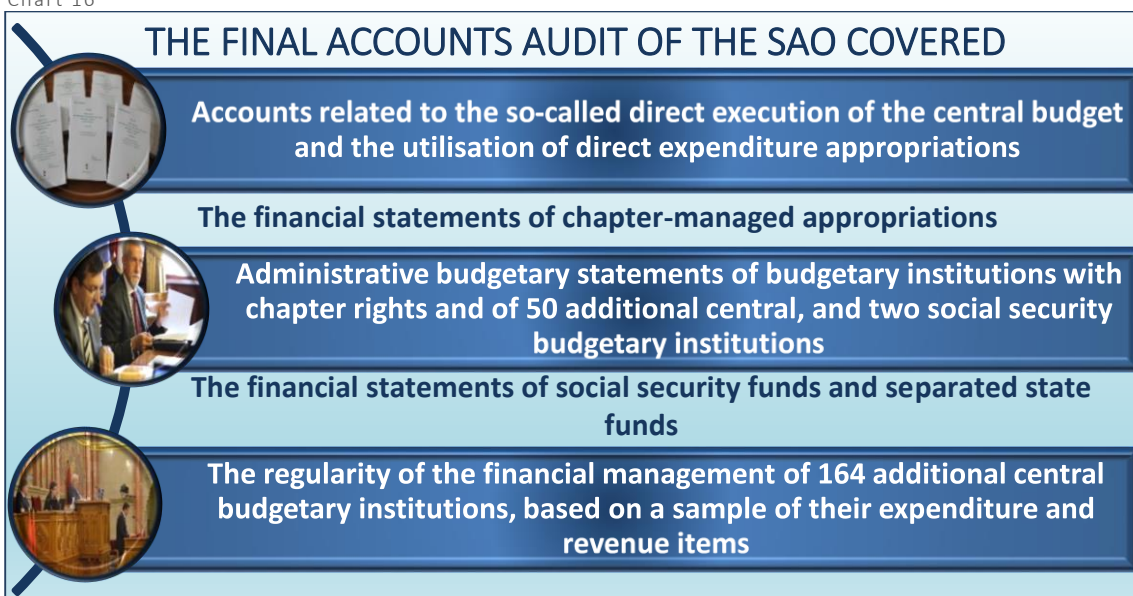
Macro-economic analysis related to the audit of final accounts

The SAO also drafted an analysis for the FC for the purpose of the subsequent evaluation of the 2013 budgetary processes, which was published at the same time as its report on the audit of the final accounts. In addition to elaborating on the macro-economic environment of budgetary processes, the analysis also contained an analysis of the budgetary processes and the development of government debt as a percentage of GDP. As a result, the SAO satisfied the demands that have previously arisen, according to which, in connection with the final accounts, it is necessary to provide an evaluation of the underlying macro-economic and budgetary processes.

The audit of final accounts

The final accounts comprise a multitude of accounts and individual (itemised) reports. As a result, the SAO must also audit most of these in order to be able to provide an opinion on the reliability of the whole of the final accounts. Therefore, in the course of auditing the 2013 final accounts, the SAO audited the areas shown on Chart 16.

Chart 16





Factors of the reliability of financial statements

The reliability of the financial statements depends on two factors. The first is whether the institutions whose operation is funded from the budget have created an appropriate system of internal controls, while the second is whether their actual operation, financial management, and the related reporting have been conducted in accordance with the adopted rules. Therefore, when auditing the final accounts, the SAO places great emphasis on auditing the internal control system of the budgetary institution that drafted the financial statement. It should be pointed out that the quality level of statements has improved constantly in recent years.

Coverage in the audit of final accounts

By taking the above into account, the audit covered 97.4 per cent of the total revenues and 90.7 per cent of the total expenditures of the 2013 central budget.

Disclosure serial
no. and link

14207

Findings

Press summary

14207-O

The SAO report containing the findings of the final accounts audit is available by clicking on the highlighted disclosure serial number or can be downloaded from the SAO website (www.asz.hu). The summary prepared for the press (also containing the main findings) is available at the link marked "O".

3.2. Audit of the Hungarian Competition Authority

The SAO places great emphasis on auditing market regulation mechanisms, and the organisations supervising compliance with the relevant legislation, and "auditing the auditors" is a new, strategically important area. The regularity audit of the Hungarian Competition Authority (GVH) for the 2008–2012 period was also undertaken within this framework. The SAO evaluated whether the functioning, the financial management and task performance of the GVH were appropriately regulated and whether it complied with the provisions of the relevant legislation and that of its internal regulations. By conducting the audit, the SAO has fulfilled its tasks set out in Article 5(3) of the SAO Act.

Disclosure serial
no. and link

14001

Findings

Press summary

14001-O

The SAO report containing the findings of the audit of the Hungarian Competition Authority is available by clicking on the highlighted disclosure serial number or can be downloaded from the SAO website (www.asz.hu). The summary prepared for the press (also containing the main findings) is available at the link marked "O".

Conclusions

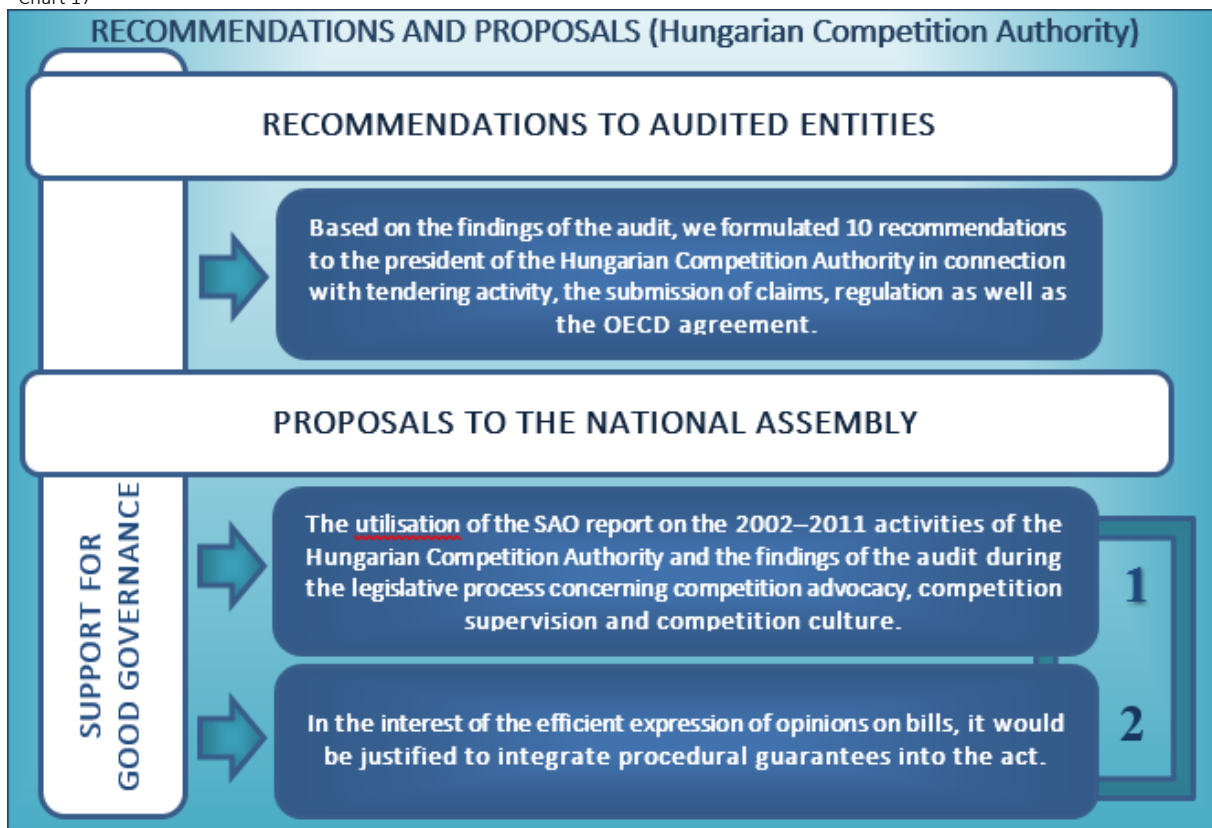
The restructuring implemented at the Hungarian Competition Authority after 2010 was substantiated, and has led to the accomplishment of objectives, with operation becoming more organised and efficient. On account of the altering legal practice observed in connection with competition supervision proceedings and the protraction of court proceedings, the amounts paid to customers but which, pursuant to the ruling of second instance, were to be paid by them were transferred back

to the national economy account after an average period of two years. As a result of the late reporting of claims by the Hungarian Competition Authority, the option of partial recovery was also lost in the case of claims related to public authority activities.

Recommendations and proposals

Chart 17 shows the areas affected by the recommendations contained in the SAO report as well as the proposals to the National Assembly.

Chart 17



3.3. Audit of Courts

By auditing the financial management of Courts for the 2008–2011 period, we provided the institutional system of courts renewed in 2012 with an in-depth and comprehensive review of the economic processes of legal predecessors, the compliance of controls applied, and their weak points. Our audit covered the Office of the National Council of Justice, the Supreme Court, the 5 appeal courts, the Metropolitan Court of Budapest as well as the 19 county courts. Over the course of the four audited years, the operation and development of the 27 courts cost HUF 300.4 billion, approximately 90% of which was covered by state subsidies. By conducting the audit, the SAO has fulfilled its tasks set out in Articles 5(3)–(4) of the SAO Act.

Disclosure serial
no. and link

[14032](#)

Press summary

[14032-O](#)



**OUR PERFORMANCE IN
NUMBERS WITH RESPECT TO THE
AUDIT OF COURTS**

5 appeal courts
audited

19 county courts
audited

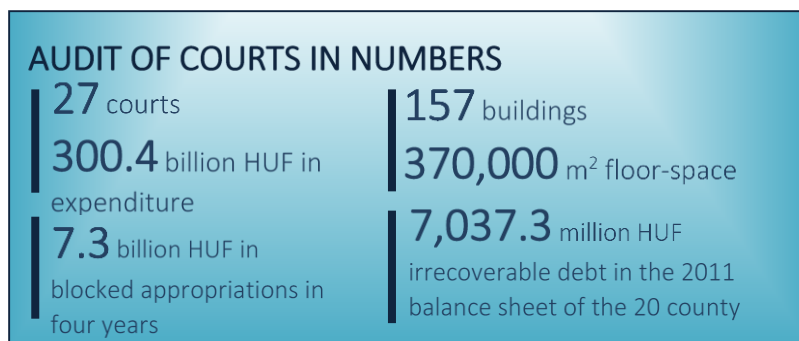
Findings

The SAO report containing the findings of the audit of Courts is available by clicking on the highlighted disclosure serial number or can be downloaded from the SAO website (www.asz.hu). The summary prepared for the press (also containing the main findings) is available at the link marked "O".

Conclusions

In the interest of better balanced financial management by the Courts, measures are required in a number of areas, with particular attention on more well-founded planning and the improvement of the transparency of budgetary processes. As part of this, the handling of payment obligations arising from court rulings needs to be settled, as well as the adjustment of financial management powers in internal regulations, furthermore, the development of a risk assessment procedure that will allow a more balanced release of mid-year blockings. Other important aspects include the true and realistic determination of the rate of judicial claims by courts, as well as the adoption of standard practices for the elimination of claims deemed irrecoverable. The preservation of the value of existing real properties is a social interest that reaches beyond court institutions, as is the provision of conditions worthy of judicial activities and that of suitable tools. The key figures related to the audit are shown in Chart 18.

Chart 18



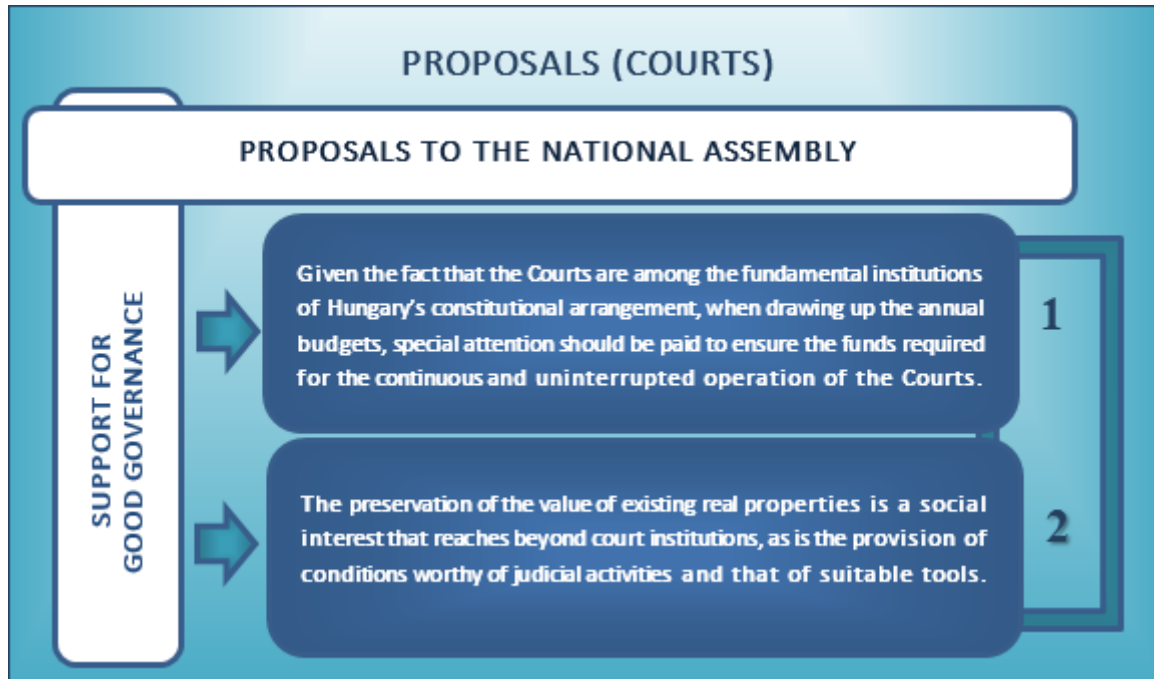
Recommendations

For the purpose of the development of these areas, the related SAO report contains a total of 6 recommendations based on findings with obligations to take action.

Proposals

Chart 19 shows the proposals to the National Assembly and MPs, through which we would like to widen the range of vision and present the aspects relevant to the audit area.

Chart 19



3.4. Audit of Wekerle Sándor Fund Management

Through its audits, the SAO provides support for the enforcement of the criteria of transparency and accountability in the case of various programmes financed from public funds. However, a high number of beneficiaries is typical of these areas, which makes it difficult to conduct wide-scale audits of the state subsidies provided. Accordingly, in 2014 the SAO audited an organisation that managed several tenders (with amounts in the tens of thousands) in the 2008–2012 period, and participated in facilitating domestic grants reaching beneficiaries in several areas. In the audited period, Wekerle Sándor Fund Management (WSA) underwent substantial restructuring on a number of occasions. Over the course of four years, Wekerle Sándor Fund Management has managed close to HUF 30 billion of domestic funds. By conducting the audit, the SAO has fulfilled its tasks set out in Articles 5(3)–(4) of the SAO Act.

Disclosure serial no. and link	14017	<p>Findings</p> <p>The SAO report containing the findings of the audit of Wekerle Sándor Fund Management is available by clicking on the highlighted disclosure serial number or can be downloaded from the SAO website (www.asz.hu). The summary prepared for the press (also containing the main findings) is available at the link marked "O".</p>
Press summary	14017-O	<p>Conclusions</p> <p>The financial standing of the legal predecessor and legal successor of the WSA was favourable in the audited period; over the course of four years its asset portfolio increased three-fold, its balance sheet total quadrupled, the liquidity ratio evolved favourably, and financial standing was unshaken by government measures aimed at the improvement of the equilibrium.</p>

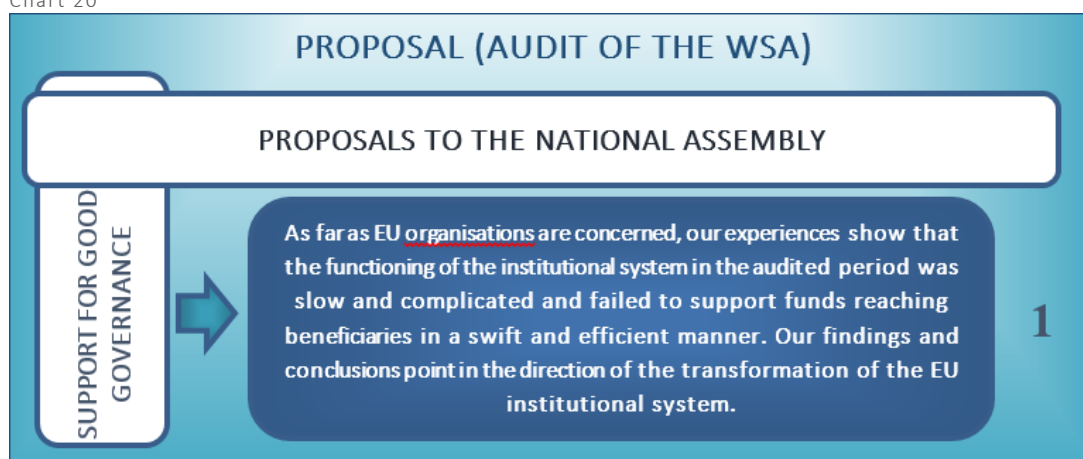
Recommendations

In connection with the deficiencies detected during the audit, we formulated a total of four recommendations based on findings with obligations to take action. Three to the president of the Office of Public Administration and Justice, and one to the president of Human Resource Support Office of the Ministry of Human Resources.

Proposals

Chart 20 shows the proposals to the National Assembly and MPs, through which we would like to widen the range of vision and present the aspects relevant to the audit area.

Chart 20



3.5. Audit of the Military National Security Service

As part of the audit of the Military National Security Service (KNBSZ) for the 2010–2012 period, we evaluated the financial management of the KNBSZ (established on 1 January 2012) and its legal predecessors, the scope and operation of internal control systems as well as the activities as managing body of the Ministry of Defence (HM). Total completed expenditures for the three years examined amounted to HUF 35.3 billion. By conducting the audit, the SAO has fulfilled its tasks set out in Article 5(11) of the SAO Act.

Disclosure serial no. and link	<u>14018</u>	Findings
Press summary	<u>14018-O</u>	The SAO report containing the findings of the audit of the Military National Security Service is available by clicking on the highlighted disclosure serial number or can be downloaded from the SAO website (www.asz.hu). The summary prepared for the press (also containing the main findings) is available at the link marked "O".

Conclusions



The Ministry of Defence, as a managing body, and the Military National Security Service (KNBSZ) showed a good example to other institutions as the foundation of the KNBSZ resulted in the saving of public funds. Based on institutional performance expenditure and headcount data from before and after restructuring, the impacts of the measures promoting more economic financial management can clearly be observed. The KNBSZ accomplished the same volume of tasks with lower staff numbers and less expenditures as its legal predecessors.

Recommendations

In connection with the deficiencies detected during the audit of the Military National Security Service, we formulated two recommendations based on findings with obligations to take action to the Director General.

3.6. Audit of the Directorate General for Audit of European Funds

The audit of the organisation performing the official audit tasks of the use of EU funds was also overlaid on the final accounts audit. The effective and efficient use of EU funds is of fundamental importance in terms of the country's competitiveness, and as such the audit of the organisations participating in the audit of use in respect of EU funds was justified. Through this approach, SAO audits are also utilised exponentially. By examining the various elements of the related audit safety net, the SAO is able to impact not just the audited entity, but all beneficiaries through the organisations exercising direct control. With its system and project audits, the DGAEF audited the process of implementing programmes for the use of HUF 2,500 billion of EU funds in the 2010–2012 period. By conducting the audit, the SAO has fulfilled its tasks set out in Articles 5(3) and (6) of the SAO Act.

Disclosure serial no. and link 	<u>14019</u>	■ Findings
Press summary 	<u>14019-O</u>	■

The SAO report containing the findings of the audit of the Directorate General for Audit of European Funds is available by clicking on the highlighted disclosure serial number or can be downloaded from the SAO website (www.asz.hu). The summary prepared for the press (also containing the main findings) is available at the link marked "O".

Conclusions

If irregularity procedures are protracted or the repayment of irregularly paid amounts fail to materialise at the auditor organisation, the budget may suffer in respect of the grants paid for 2010 audited Phare and Transition Facility projects. The Directorate General for Audit of European Funds covered 30% of its expenditures from EU (technical) funds. Liquidity problems arose on several occasions at the organisation.

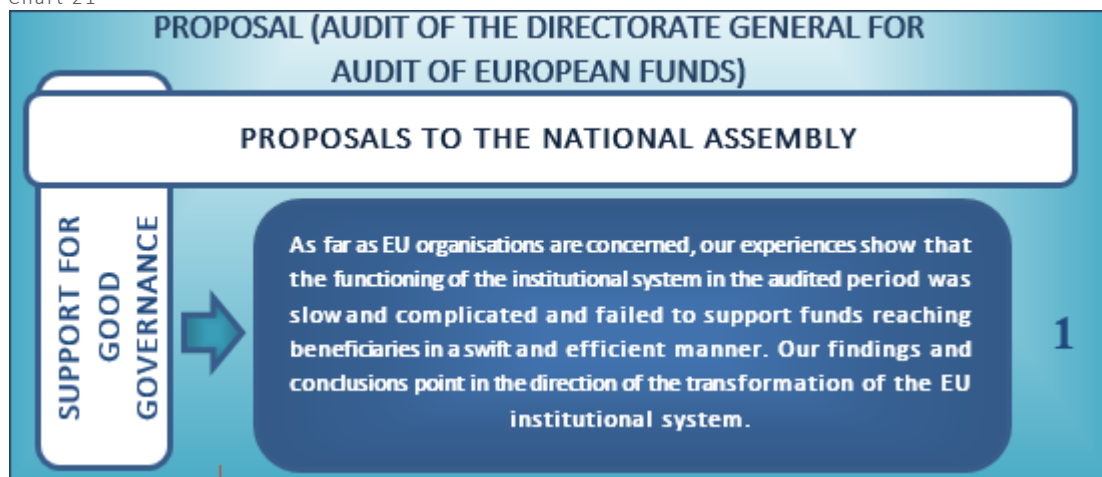
Recommendations

Based on the deficiencies detected during the audit, we formulated a total of five recommendations based on findings with obligations to take action to the Director General of the Directorate General for Audit of European Funds and the Minister for National Economy.

Proposals

Chart 21 shows the proposals to the National Assembly and MPs, through which we would like to widen the range of vision and present the aspects relevant to the audit area.

Chart 21



3.7. Audit of the Hungarian Institute for Culture and Art

It is the strategic goal of the SAO to also audit areas that to date have not been subjected to SAO auditing. Accordingly, the SAO has commenced the audit of the financial management situation and property management in respect of certain institutions of the central subsystem. Of the thematic audits, one of the very first was the audit of the Hungarian Institute for Culture and Art (MMIKL) for the period between 2008 and the first half of 2012. The scope of the audit also included the assessment of the regulation concerning the managing institution. By conducting the audit, the SAO has fulfilled its tasks set out in Articles 5(3)–(4) of the SAO Act.

Disclosure serial no. and link [14025](#)

Press summary [14025-O](#)

Findings

The SAO report containing the findings of the audit of the Hungarian Institute for Culture and Art is available by clicking on the highlighted disclosure serial number or can be downloaded from the SAO website (www.asz.hu). The summary prepared for the press (also containing the main findings) is available at the link marked "O".

Conclusions

The establishment of the control environment was only partially compliant with legal provisions in the audited period. The institution's regulations regarding asset management in the audited period did not serve the efficient and economical operation of state property, the protection of property conditions, or their preservation and increase.

Recommendations

The SAO recommended that the Minister of Human Resources take measures to set up requirements regarding the institutional performance of public functions and the regular and efficient management of institutional resources, as well as the enforcement of these requirements and the related checks and accountability. Amongst others, the SAO recommended that the Director General of the National Institute of Culture (NMI) prepare Operational and Organisational Rules in line with the effective deed of foundation, and to set up a system tracking the operation of the organisation and the accomplishment of

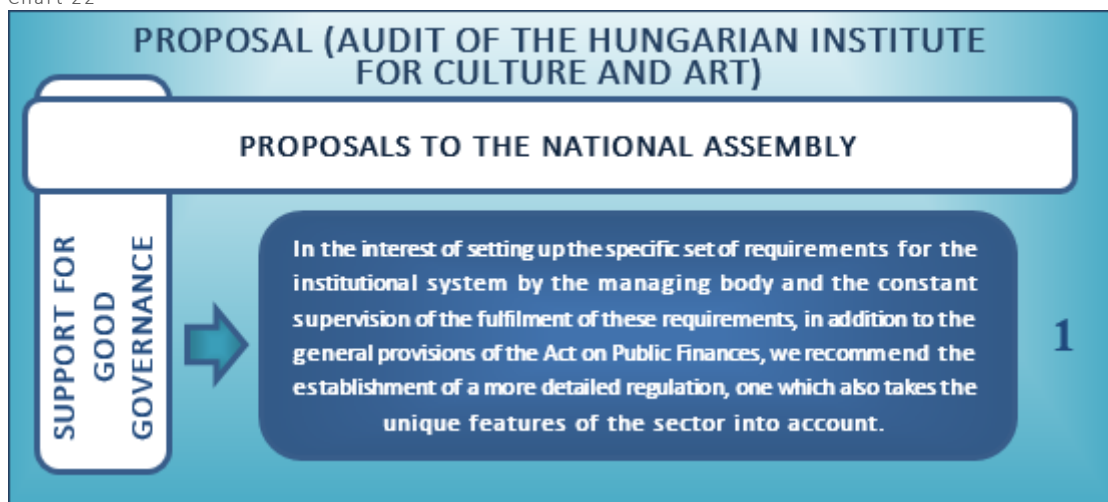


objectives. The SAO formulated recommendations to the Financial Officer of the NMI concerning the supplementation of the Rules of Procedure of the organisation, the checking and (technical) verification of the spending of expenditures during budgetary disbursements, as well as regarding the reclassification of claims in line with legal provisions.

Proposal

During the performance of public functions, the basic requirement of improving effectiveness and efficiency and establishing the efficient use of public funds is to set up a specific set of requirements for the institutional system by the managing body and the constant supervision of the fulfilment of these requirements. Chart 22 shows the proposals to the National Assembly and MPs, through which we would like to widen the range of vision and present the aspects relevant to the audit area.

Chart 22



3.8. Audit of certain agricultural research institutes and certain gene preservation institutions of the Ministry of Rural Development

As part of the audit, the SAO audited a total of five agricultural and gene preservation institutes, none of which had been audited by the SAO in the past. In line with its strategic goals, the SAO again covered a previously unaudited area, and the findings recorded in the SAO report justified the audits. In 2014, some of the audited areas underwent substantial restructuring, and as such the new institution was also able to utilise the contents of the SAO reports. By conducting the audit, the SAO has fulfilled its tasks set out in Articles 5(3)–(4) of the SAO Act.

Disclosure serial no. and link	<u>14039</u>	Findings
Press summary	<u>14039-O</u>	The SAO report containing the findings of the audit of certain agricultural research institutes and certain gene preservation institutions of the Ministry of Rural Development is available by clicking on the highlighted disclosure serial number or can be downloaded from the SAO website (www.asz.hu). The summary prepared for the press (also containing the main findings) is available at the link marked "O".

OUR PERFORMANCE IN NUMBERS WITH RESPECT TO THE AUDIT OF CERTAIN AGRICULTURAL RESEARCH INSTITUTES AND CERTAIN GENE PRESERVATION INSTITUTIONS OF THE MINISTRY OF RURAL DEVELOPMENT

4 audited institutes

15 recommendations based on findings with obligations to take action

Conclusions

In the audited period, the internal control systems of the institutes – fundamentally due to the deficiencies of regulation – failed to ensure the regular financial and asset management of the institutes and their transparency, and did not contribute to the prevention of irregularities and errors. The deficiencies detected during the audit highlighted the financial and asset management areas that required intervention in the interest of operation according to legal provisions, which, however, did not in essence endanger the operation of these institutes.

Recommendations

The SAO recommended that the Minister of Rural Development take measures to set up requirements regarding the institutional performance of public functions and the regular and efficient management of institutional resources, as well as an internal regulation on prime cost calculation to determine the direct prime cost of the service rendered. Amongst others, we formulated recommendations to the directors general of the audited institutes concerning the establishment of regulations and control systems in line with legal provisions, and regarding direct prime cost calculation of the service rendered pursuant to the prime cost calculation regulation.

Proposal

During the performance of public functions, the basic requirement of improving effectiveness and efficiency and establishing the efficient use of public funds is to set up a specific set of requirements for the institutional system by the managing body and the constant supervision of the fulfilment of these requirements. Chart 23 shows the proposals to the National Assembly and MPs, through which we would like to widen the range of vision and present the aspects relevant to the audit area.

Chart 23



3.9. Audit of the operation of the previous and the renewed system of public procurement

As set out in its Strategy, it is the objective of the SAO to support ‘good governance’ through its audits. In our view, simply auditing compliance with legal regulations is not enough. It is necessary and justified that through its audits, the SAO provide feedback on the enforcement of legal objectives in respect of legal regulations crucial with regard to transparency and the sensible use of public funds. Accordingly, the SAO audited the operation of the previous and the renewed system of public procurement. The objective of the audit was to determine whether between 2008 and 2012 the amendments of the Act on Public Procurement and the new Act on Public Procurement contributed to the accomplishment of the objectives of legislation, and whether it facilitated this through the regular operation of the central institutional system. All of the audited entities play a key role in the operation of the public procurement system. In the audited period in Hungary, the total value of public procurements per year reached 5-7% of GDP, and represented 8-9% of public finance expenditures. By conducting the audit, the SAO has fulfilled its tasks set out in Articles 5(2)–(3) of the SAO Act.

Disclosure serial
no. and link

14074

Findings

Press summary

14074-O

The SAO report containing the findings of the audit of the operation of the previous and the renewed system of public procurement is available by clicking on the highlighted disclosure serial number or can be downloaded from the SAO website (www.asz.hu). The summary prepared for the press (also containing the main findings) is available at the link marked “O”.

Conclusions

The legal regulation and institutional system of public procurements are of primary significance in respect of the transparency of public financial management. The legal regulations and continuous amendments of public procurements fundamentally impact economic development processes. The legislative amendments in the 2008–2012 period have simplified the public procurement system; however, there are still some regulatory deficiencies left.

Recommendations

For the deficiencies detected, the SAO formulated recommendations to the Minister of National Development, the President of the Public Procurement Authority and Director General of the Directorate-General for Public Procurement and Supply (KEF) in connection with the initiation of legislative amendments, the disclosure of data set out in legislation, as well as a recommendation to the Directorate General of the KEF with regard to logging in via the Client Gateway (Ügyfélkapu).

Proposal

During the creation of regulations planned for public procurements, we recommend the utilisation of findings contained in the report, which may contribute to making the use of public funds more transparent. Our objective with the proposals to the National Assembly and MPs is to widen the range of vision and to present the aspects relevant to the audit area.

OUR PERFORMANCE IN NUMBERS WITH RESPECT TO THE AUDIT OF THE PUBLIC PROCUREMENT SYSTEM

4 audited entities

3 recommendations based on findings with obligations to take action



3.10. Audit of the National Institute for Family and Social Policy

The audit, which in part covered the 2008–2012 period and in part the 2010–2012 period, is part of the audit of the financial management situation and asset management of various institutions of the central subsystem. The SAO has not audited the National Institute for Family and Social Policy in the past. By conducting the audit, the SAO has fulfilled its tasks set out in Articles 5(3)–(4) of the SAO Act.

Disclosure serial
no. and link

[14097](#)

Press summary

[14097-O](#)

Findings

The SAO report containing the findings of the audit of the National Institute for Family and Social Policy is available by clicking on the highlighted disclosure serial number or can be downloaded from the SAO website (www.asz.hu). The summary prepared for the press (also containing the main findings) is available at the link marked "O".

Conclusions

Due to the deficiencies detected, the internal control system failed to ensure the regular performance of functions, use of public funds or asset management in every respect. The fact that accountable requirements and expectations needed for the performance of public functions and the efficient management of resources have not been determined has limited the managing body in its powers (set forth by the Act on Public Finances) to enforce requirements and to hold accountable. On the part of the managing body, the delay in the conclusion of the subsidy contract ensuring coverage for the performance of functions by the National Institute for Family and Social Policy resulted in uncertainty in task performance and led to non-compliant practice.

Recommendations

We recommended to the Minister of Human Resources the determination and enforcement of requirements arising from the legal regulations needed for the institution's performance of public functions and the efficient management of resources, and related accountability. We also recommended that the deadlines for concluding subsidy contracts be adapted to the objective and schedule of use. We recommended that the head of the institution eliminate the deficiencies of the internal control system detected by the audit, as well as the irregularities related to task performance and financial management.

Proposal

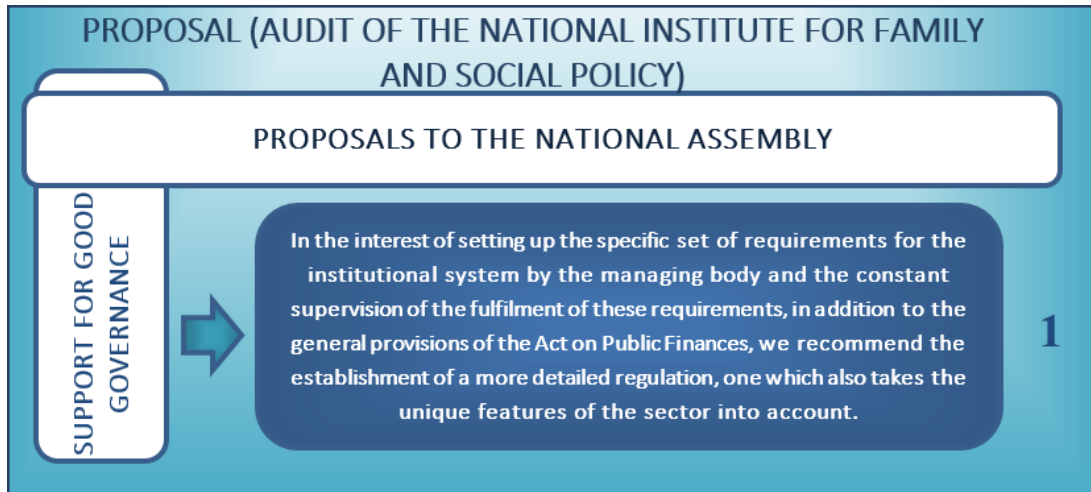
During the performance of public functions, the basic requirement of improving effectiveness and efficiency and establishing the efficient use of public funds is to set up a specific set of requirements for the institutional system by the managing body and the constant supervision of the fulfilment of these requirements. Chart 24 shows the proposals to the National Assembly and MPs, through which we would like to widen the range of vision and present the aspects relevant to the audit area.



OUR PERFORMANCE IN NUMBERS WITH RESPECT TO THE AUDIT OF THE NATIONAL INSTITUTE FOR FAMILY AND SOCIAL POLICY

9	recommendations based on findings with obligations to take action
2	addressees

Chart 24



3.11. Audit of the Hungarian State Treasury

In terms of methods increasing the efficiency and effectiveness of SAO audits, the regularity audit of the operation, financial management and task performance of the Hungarian State Treasury is part of the area of auditing auditors. The audit covered the 2008–2012 period. By conducting the audit, the SAO has fulfilled its tasks set out in Articles 5(3)–(4) of the SAO Act.

Disclosure serial no. and link

14098

Findings

The SAO report containing the findings of the audit of the Hungarian State Treasury (Treasury) is available by clicking on the highlighted disclosure serial number or can be downloaded from the SAO website (www.asz.hu). The summary prepared for the press (also containing the main findings) is available at the link marked "O".

Press summary

14098-O



Conclusions

Due to errors and deficiencies detected in the operation of internal controls, the Treasury's financial management between 2008–2010 was only partially regular, and regular between 2011–2012. The audited areas were basically in compliance with legal provisions, and the audit primarily detected deficiencies in connection with the updating of the internal regulatory system and the public credibility of registration ID records, and in the area of IT task performance and the operation of internal controls.

Recommendations

The SAOP formulated recommendations to the Minister for National Economy regarding the review and supplementation of the deed of foundation of the Treasury; and to the President of the Treasury concerning the updating of internal regulations, the verification of data published on its website, the person responsible for IT security and the conducting of the public procurement procedure.

OUR PERFORMANCE IN NUMBERS WITH RESPECT TO THE AUDIT OF THE TREASURY

10 audits covering the regularity of the task performance of professional areas

27 recommendations based on findings with obligations to take action

3.12. Audit of the National Office of Cultural Heritage

The preservation, increase and use of public collections is an important area of responsible asset management by the state, and as such the SAO places great emphasis on auditing the relevant group of institutions. The audit, which covered the 2009–2012 period, is part of the audit of the financial management situation and asset management of various institutions of the central subsystem. The SAO has not audited this institution in the past. By conducting the audit, the SAO has fulfilled its tasks set out in Articles 5(3)–(4) of the SAO Act.

Disclosure serial
no. and link

140130

Press summary

14130-O

Findings

The SAO report containing the findings of the audit of the National Office of Cultural Heritage (KÖH) is available by clicking on the highlighted disclosure serial number or can be downloaded from the SAO website (www.asz.hu). The summary prepared for the press (also containing the main findings) is available at the link marked “O”.

Conclusions

Due to the deficiencies detected, the internal control system failed to ensure the regular performance of functions, use of public funds or asset management in every respect. The fact that accountable requirements and expectations needed for the performance of public functions and the efficient management of resources have not been determined has limited the managing body in its powers (set forth by the Act on Public Finances) to enforce requirements and to hold accountable.



OUR PERFORMANCE IN NUMBERS WITH RESPECT TO THE AUDIT OF THE NATIONAL OFFICE OF CULTURAL HERITAGE

10 recommendations
based on findings
with obligations to
take action

2 addressees

Recommendations

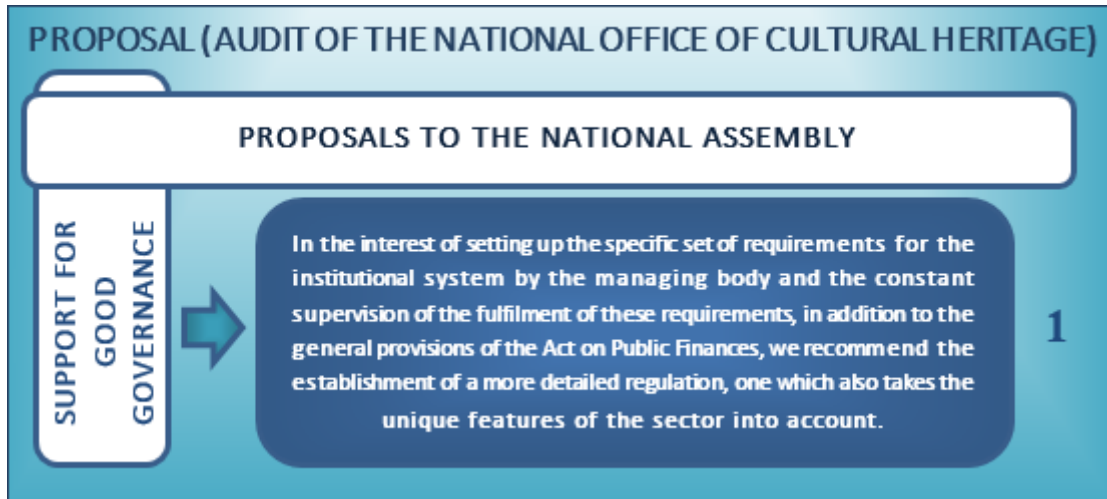
We recommended to the Minister of Human Resources the determination and enforcement of requirements arising from the legal regulations needed for the institution’s performance of public functions and the efficient management of resources, and related accountability. We also recommended that the deadlines for concluding subsidy contracts be adapted to the objective and schedule of use. We recommended that the heads of the institutions eliminate the deficiencies of the internal control system detected by the audit, as well as the irregularities related to task performance and financial management.

Proposal

During the performance of public functions, the basic requirement of improving effectiveness and efficiency and establishing the efficient use of public funds is to set up a specific set of requirements for the

institutional system by the managing body and the constant supervision of the fulfilment of these requirements. Chart 25 shows the proposals to the National Assembly and MPs, through which we would like to widen the range of vision and present the aspects relevant to the audit area.

Chart 25



3.13. The audit of higher education institutions

The social and economic role of higher education; the significant use of public funds; the economic difficulties experienced by the other institutions; and the socio-economic and legislative changes in the audited period focused the SAO's attention on the financial management and operation of the higher education system. The regularity audit of the full scope of state higher education institutions was also justified by the fact that the area of higher education is featured in the SAO's survey of corruption risks impacting the public sector as an area of high risk. By conducting the audit, the SAO has fulfilled its tasks set out in Articles 5(3)–(4) and (6) of the SAO Act.

OUR PERFORMANCE IN NUMBERS WITH RESPECT TO THE AUDIT OF HIGHER EDUCATION INSTITUTIONS

9	audited higher education institutions
12	public procurement legal remedy proceedings opened
71	recommendations based on findings with obligations to take action

Findings

The SAO reports containing the findings of the audits of the 9 higher education institutions are available by clicking on the name of the institution's name in Section 7 of Annex 1 or can be downloaded from the SAO website (www.asz.hu).

Conclusions

The irregularities detected by the audit had an unfavourable impact on the operation and financial management of the institutions concerned.

Recommendations

As the effectiveness of financial and asset management can be considerably promoted by improving the regularity of operation, we have formulated recommendations to the Minister responsible for higher education as well as the heads of the institutions concerned. The recommendations made to the Minister of Human Resources were aimed at investigating the circumstances of labour law liability related to irregularities and taking the required measures. The recommendations made to the heads of institutions were aimed at eliminating and correcting the irregularities and deficiencies of the internal control system, financial and asset management and the statement of assets detected by the audit.

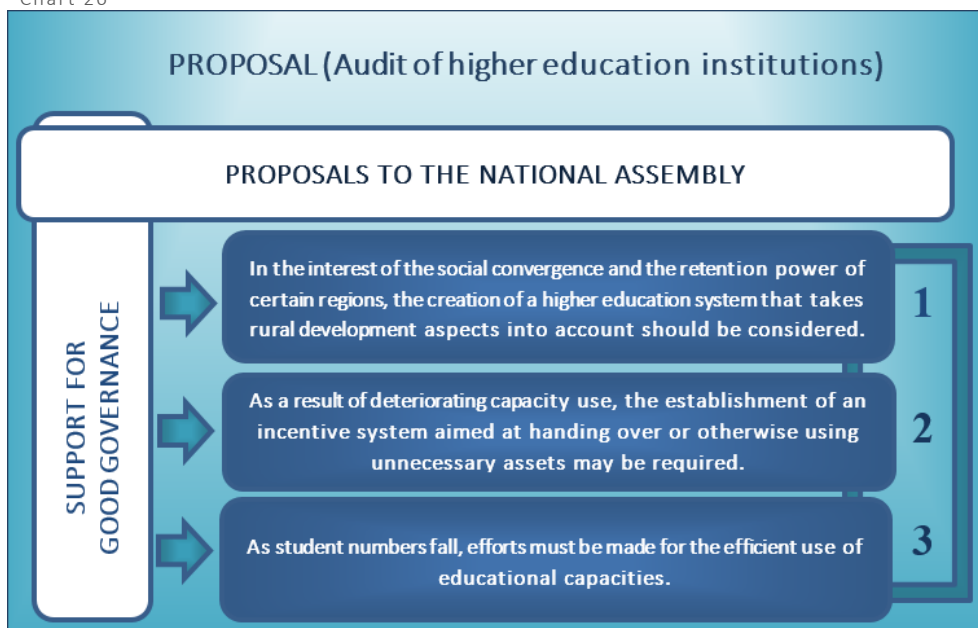
Proposals

Non-Budapest colleges and universities are key institutions of their respective regions. Their training services, along with their academic and public role, impact the economic environment and the quality of life of people living in the given region. The drop in student numbers, and as a result in revenues, hit these institutions the hardest. In the interest of the social convergence and the retention power of certain regions, the creation of a higher education system that takes rural development aspects into account should be considered.



As a result of infrastructure developments that disregarded demographic processes, the level of capacity use in higher education institutions has deteriorated. In order to avoid surplus expenditures (arising from the above) and to efficiently use the existing infrastructure, the establishment of an incentive system aimed at handing over or otherwise using unnecessary assets may be required. As student numbers fall, efforts must be made for the efficient use of educational capacities. In connection with the development of information technology and the spread of electronic curricula, the education technology transition that could lead to a drop in the number of contact hours may be implemented for certain training programmes. This in turn could provide an opportunity to reduce personal expenses, or freed up capacities could play a role in raising the level of training or research. The proposals are shown in Chart 26.

Chart 26



3.14. The audit of the operation, financial management and task performance of the Office of the Commissioner for Fundamental Rights

The transformation of the institutional system of ombudsmen resulted in the establishment of a unified institution replacing the four independent ombudsmen. The Office of the Commissioner for Fundamental Rights (hereinafter: AJBH) started operation with the new commissioner structure on 1 January 2012, while data protection functions were performed by the National Authority for Data Protection and Freedom of Information. In 2012, a new legal environment was created which served as a foundation for the performance of functions, and a new organisation was set up and these impacted all areas of operation. Accordingly, conducting the audit covering the 2011–2013 period was justified.

Disclosure serial no. and link	14222
Press summary	14222-O

Findings

The SAO report containing the findings of the audit of the Office of the Commissioner for Fundamental Rights is available by clicking on the highlighted disclosure serial number or can be downloaded from the SAO website (www.asz.hu). The summary prepared for the press (also containing the main findings) is available at the link marked "O".

Conclusions

The set-up and operation of the internal control system in respect of financial management processes was in compliance with legal provisions only in part, which fact was due to the deficient establishment of the new institution's internal control environment. During the use of expenditure appropriations, the internal controls linked to financial management powers were inadequately operated by the institution in 2011 and 2013, and they were not wholly compliant with legal provisions in 2012 either, which represents high risk in terms of the regular operation of the audited area as a whole. The financial management of the institution was well-balanced, without exceeding priority appropriations.

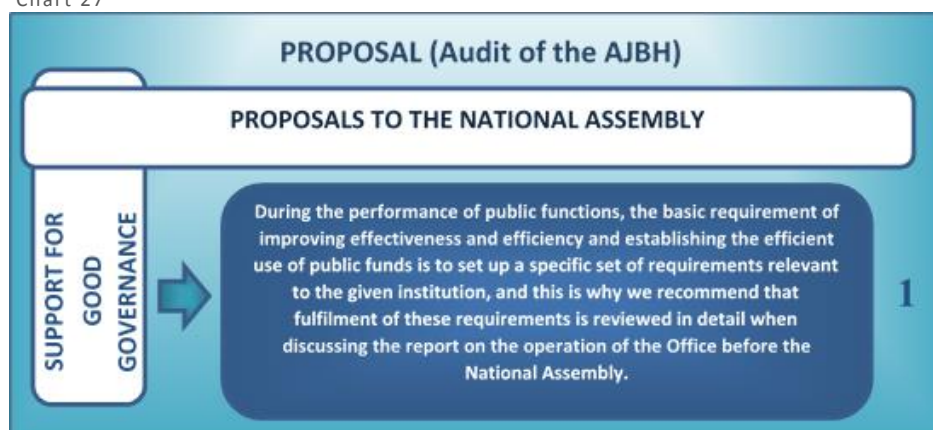
Recommendations

The SAO formulated three recommendations to the Commissioner for Fundamental Rights, and four recommendations to the Secretary General of the Office of the Commissioner for Fundamental Rights.

Proposal

Chart 27 shows the proposal to the National Assembly and MPs, through which we would like to widen the range of vision and present the aspects relevant to the audit area.

Chart 27



4. Audit of the exercising of ownership rights over state property

Pursuant to legislative requirements, the SAO audits the exercising of ownership rights over state property on an annual basis. For 2013, the SAO audited the establishment of the control environment required to exercise ownership rights; the regularity of measures at organisations related to the handover and acceptance of assets; and it also audited the establishment and operation of the internal control system (control environment and monitoring system) during the management of state-owned properties. By conducting the audit, the SAO has fulfilled its tasks set out in Articles 5(2), (4) and (6) of the SAO Act.

Disclosure serial
no. and link

14236

Press summary

14236-O

Findings

The SAO report containing the findings of the audit of the exercising of ownership rights over state property is available by clicking on the highlighted disclosure serial number or can be downloaded from the SAO website (www.asz.hu). The summary prepared for the press (also containing the main findings) is available at the link marked "O".

Conclusions

The new audit approach applied as of 2013 contributed to the strengthening of the control system; however, the performance of ownership activities was still not fully supported by the control system established and operated.

Recommendations

The SAO formulated recommendations to the Minister of Human Resources in respect of social security fund assets to establish a control system for the exercise of ownership rights, and a recommendation to the CEO of the Hungarian National Asset Management Inc. (MNV Zrt.) concerning amendments to its Operational and Organisational Rules. The SAO also formulated recommendations to the President of the National Land Fund for the preparation of internal procedures still missing; and to the Director General of the GYEMSZI (National Institute for Quality- and Organisational Development in Healthcare and Medicines) for the implementation of the necessary measures related to the booking and separate record-keeping of assets entrusted to it and related to the irregularities of asset transfers.

OUR PERFORMANCE IN NUMBERS WITH RESPECT TO THE AUDIT OF THE EXERCISING OF OWNERSHIP RIGHTS OVER STATE PROPERTY

4 addressees

5 recommendations
based on findings
with obligations to
take action

5. Audit of state and local government-owned companies and non-profit organisations

The amendment of the SAO Act effective as of 1 January 2011 now allows for the comprehensive audit of local government-owned companies. After this, the SAO started auditing this area with the audit of the Budapest Transport Company, then continued with the audit of three non-Budapest transport companies in 2013. The audit conducted in 2011 called attention to grave problems such as excessive or hidden indebtedness, which took shape in the ageing of tools serving the performance of public functions and the lack of investments exceeding the rate of amortisation. These can all place considerable burdens on local governments and can ultimately lead to the rise of public debt, which in turn could endanger the fulfilment of obligations set out in the Fundamental Law or the Stability Act. In addition, the audit of the area also touches on issues such as substantiated prime cost calculation, which plays a key role in the pricing of public services.

5.1. The audit of the Budapest Public Area Maintenance Company

In 2014 the SAO continued its audits of companies majority-owned by local governments. It was as part of this audit process that the SAO published its report on the audit of the Budapest Public Area Maintenance Company (FKF Zrt.) for the 2008–2012 period. By conducting the audit, the SAO has fulfilled its tasks set out in Article 5(4) of the SAO Act.

Disclosure serial no. and link [14002](#) **Findings**

Press summary [14002-O](#)

The SAO report containing the findings of the audit of FKF Zrt. is available by clicking on the highlighted disclosure serial number or can be downloaded from the SAO website (www.asz.hu). The summary prepared for the press (also containing the main findings) is available at the link marked "O".

Conclusions

It is very important that there is transparent pricing in public services, the basis of which is correct prime cost determination. In the case of the FKF, the conditions for this were not provided in the audited period.

Recommendations

Based on the audit findings, we formulated recommendations to eliminate the regulatory deficiencies detected and the irregular practice, a prominent recommendation among which was the appropriate regulation of prime cost calculation.

OUR PERFORMANCE IN NUMBERS WITH RESPECT TO RECOMMENDATIONS MADE DURING THE AUDIT OF FKF ZRT.

2 addressees

10 recommendations based on findings with obligations to take action

5.2. Audit of theatres

The topicality of auditing theatres was in part due to the fact that a significant change occurred in their legal status in 2011. After 31 July 2011, theatres (which until that point operated as budgetary institutions) continued to perform their public functions as non-profit organisations. When planning its audits, the SAO takes into consideration, amongst other things, the segment of public administration in which changes occurred that would justify the audit of the given area. The SAO wished to conduct forward-thinking and value-creating audits in the case of theatres as well, in order to support directors with its recommendations, given that the management of a company is different from that of a budgetary institution. Through its audits, the SAO facilitates the elimination of errors and better task performance. By conducting the audit, the SAO has fulfilled its tasks set out in Article 5(4) of the SAO Act.



OUR PERFORMANCE IN NUMBERS WITH RESPECT TO THE AUDIT OF THEATRES

17	Budapest and non-Budapest theatres audited
94	recommendations based on findings with obligations to take action

Findings

The SAO reports containing the findings of the audits of the 17 Budapest and non-Budapest theatres are available by clicking on the name of the company in Section 4 of Annex 1 or can be downloaded from the SAO website (www.asz.hu).

Conclusions

Appropriate prime cost calculation is crucial for transparent and responsible financial management, and this was deficient in the case of theatres.

Recommendations

Based on the audit findings, we formulated recommendations to eliminate the regulatory deficiencies detected and the irregular practice, a prominent recommendation among which was the appropriate regulation of prime cost calculation. In the related SAO reports, the SAO formulated a total of 94 recommendations to the audited entities with obligations to take action.

5.3. The audit of water utility companies

In respect of economic entities owned (partly owned) by the state, based on its legal mandate the SAO made the asset preserving and asset increasing activities of such organisations a key focus area. Our audit experiences have also revealed that it is very important from the aspect of protecting state assets and the related record-keeping that the SAO examine the settlements between asset managers and the exercisers of ownership rights in the case of state-owned economic entities as well, along with the decisions affecting assets. By conducting the audit, the SAO has fulfilled its tasks set out in Article 5(4) of the SAO Act.



Findings

The SAO reports containing the findings of the audits of the 5 water utility companies are available by clicking on the name of the company in Section 5 of Annex 1 or can be downloaded from the SAO website (www.asz.hu).

OUR PERFORMANCE IN NUMBERS WITH RESPECT TO THE AUDIT OF WATER UTILITY COMPANIES

5	water utility companies audited
42	recommendations based on findings with obligations to take action

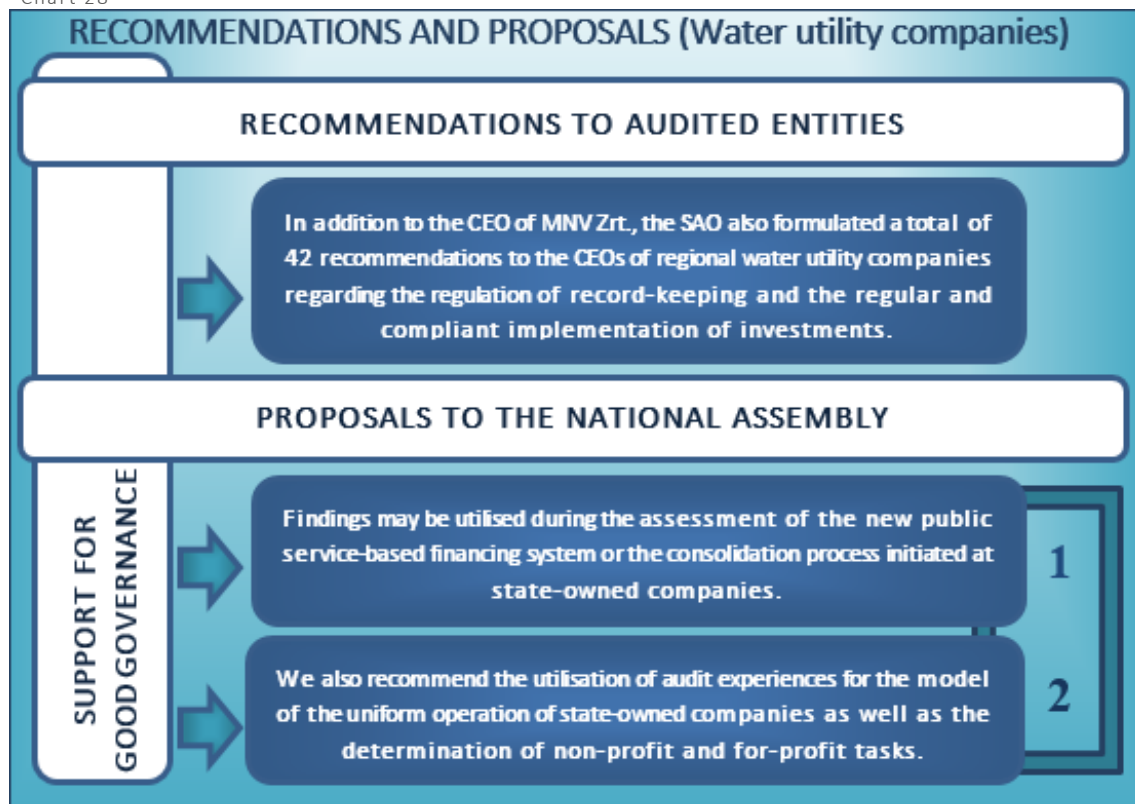
Conclusions

The asset management agreements concluded in 1998 failed to ensure a regular and compliant financial management environment. The principle of cost-recovery was not enforced as the conscious and continuous detection of reserves was not integrated into the asset management of companies. Asset management fundamentally determines the sustainability of public services, and as such the appropriate registry of state assets and audits by the owners are extremely important.

Recommendations and proposals

Chart 28 shows the proposals to audited entities based on findings that require action as well as the proposals to the National Assembly and MPs, through which we would like to widen the range of vision and present the aspects relevant to the audit area.

Chart 28

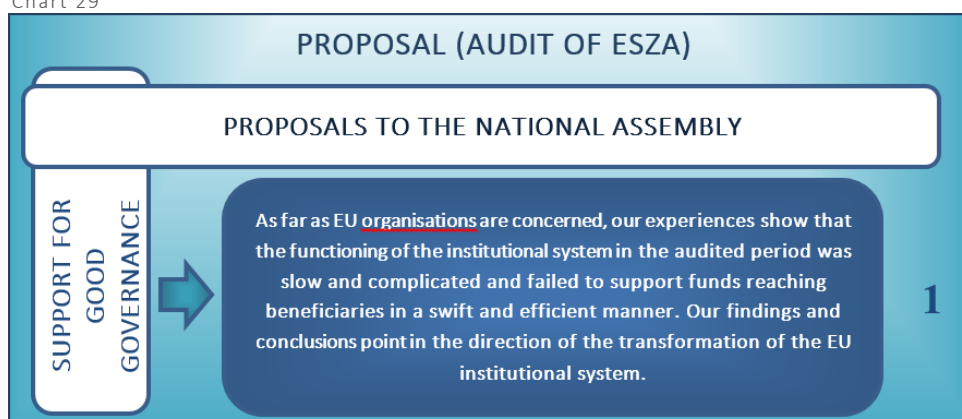


5.4. The audit of ESZA Nonprofit Kft. (European Social Fund National Implementing Agency)

The SAO pays special attention to auditing organisations linked to tendering programmes financed from domestic and EU funds. By auditing this area, we support the effective and efficient use of domestic and EU funds. Amongst others, in 2014 the SAO audited the financial management of ESZA Nonprofit Kft. (European Social Fund National Implementing Agency) (ESZA) for the 2008–2012 period. This audit was also overlaid on the final accounts audit, and utilised the experiences of the latter. The audit covered the organisation’s internal control system as well as the control system of the exercisers of ownership rights. Over the course of five years, the ESZA managed EU operational programme funds of HUF 1,800 billion and distributed close to HUF 54 billion of domestic funds. By conducting the audit, the SAO has fulfilled its tasks set out in Articles 5(2)–(4) of the SAO Act.

Disclosure serial no. and link	14016	Findings
Press summary	14016-O	<p>The SAO report containing the findings of the audit of ESZA Nonprofit Kft. (European Social Fund National Implementing Agency) is available by clicking on the highlighted disclosure serial number or can be downloaded from the SAO website (www.asz.hu). The summary prepared for the press (also containing the main findings) is available at the link marked “O”.</p> <p>Conclusions</p> <p>The revenue structure at ESZA has been restructured, operating grants and managing body revenues were replaced by SLA grants, and the organisation had no liquidity problems.</p> <p>Recommendations</p> <p>In the interest of correcting the deficiencies detected by the audit, we formulated a recommendation based on findings with obligations to take action for the exerciser of ownership rights over ESZA NKft., as well as to the President of the National Development Agency and the head of the ESZA Nonprofit Kft. intermediate body.</p> <p>Proposals</p> <p>Chart 29 shows the proposals to the National Assembly and MPs, through which we would like to widen the range of vision and present the aspects relevant to the audit area.</p>

Chart 29



6. The audit of local governments

The SAO continued the thematic audits of local governments in 2014 as well and published a total of 196 SAO reports – of which 18 were on companies owned by local governments – on the audit of the five local government areas concerned (financial situation, asset management, internal control system, minority local governments, and companies majority-owned by local governments). The continuous increase in the number SAO reports on the local government subsystem was made possible by transitioning to project-based working arrangements.

What does project-based work mean?

It is a system of organisational and management principles and a way of organisational operation where the organisation adopts to the task rather than the other way around. The organisation is focused on the tasks at hand – project tasks – which have a clear start and ending, with a specific starting point and an attainable final status and an ultimate objective. In order to reach the project target, a temporary team in charge of the task works as a joint operating system that is able to integrate into itself the necessary resources, required capacity and expertise. The continuous completion of project tasks and the introduction of subsequent project tasks cyclically create a new task environment, to which the organisation continuously adapts.

6.1. Audit of the distribution of resources

The SAO reviews the local government decree on revenues available for and shared by the Budapest Municipality and the Budapest district local governments pursuant to an applicable legal obligation. By conducting the audit, the SAO has fulfilled its tasks set out in Articles 5(2)–(3) of the SAO Act.

Disclosure serial no. and link	14015
Press summary	14015-O

Findings

The SAO report containing the findings of the audit of the distribution of resources is available by clicking on the highlighted disclosure serial number or can be downloaded from the SAO website (www.asz.hu). The summary prepared for the press (also containing the main findings) is available at the link marked “O”.

Recommendations

Based on the findings of the audit, the SAO called on the Municipality of Budapest to make a few clarifications. Among others, the Municipality was asked to ensure that its implementing regulations on the amount of the tourism tax budgeted for 2013 and the date of the execution of the transfer to the benefit of the Budapest districts are in harmony with the provisions on net financing of the Resource Distribution Act, the Budget Act, the Act on Public Finances. Moreover, no detailed calculations or analyses were made to economically support the tourism tax revenue target figure. The findings contained in the related SAO reports have been regularly utilised over the past few years.

What is the audit of the distribution of resources?

According to the Resource Distribution Act, the resource distribution decree of the Municipality of Budapest for the current year is reviewed by the SAO, and if it finds that as a result of the resource distribution, the Municipality of Budapest or a Budapest district local government obtained funds illegally, or the size of the funds granted to it was smaller than what it would have been entitled to, the Municipality of Budapest shall adjust its resource distribution determined pursuant to the Resource Distribution Act, with the amount of said difference in the year following the

6.2. Audit on the situation of the financial management of local governments

The purpose of the audit of the SAO was to evaluate the financial situation and financial regularity of the local governments. We detected the processes affecting financial equilibrium and identified the risks affecting the evolution of financial equilibrium that persist in spite of the debt consolidation. Despite the continuously changing economic and legal framework and the re-regulation of the operating basis of the subsystem of local governments, our findings remain topical and give an accurate snapshot of the operation of the audited local governments and their financial risks. In 2014, we published 11 local government audit reports within the framework of the thematic audits of local government. By conducting the audit, the SAO has fulfilled its tasks set out in Articles 5(2)–(4) and (8) of the SAO Act.

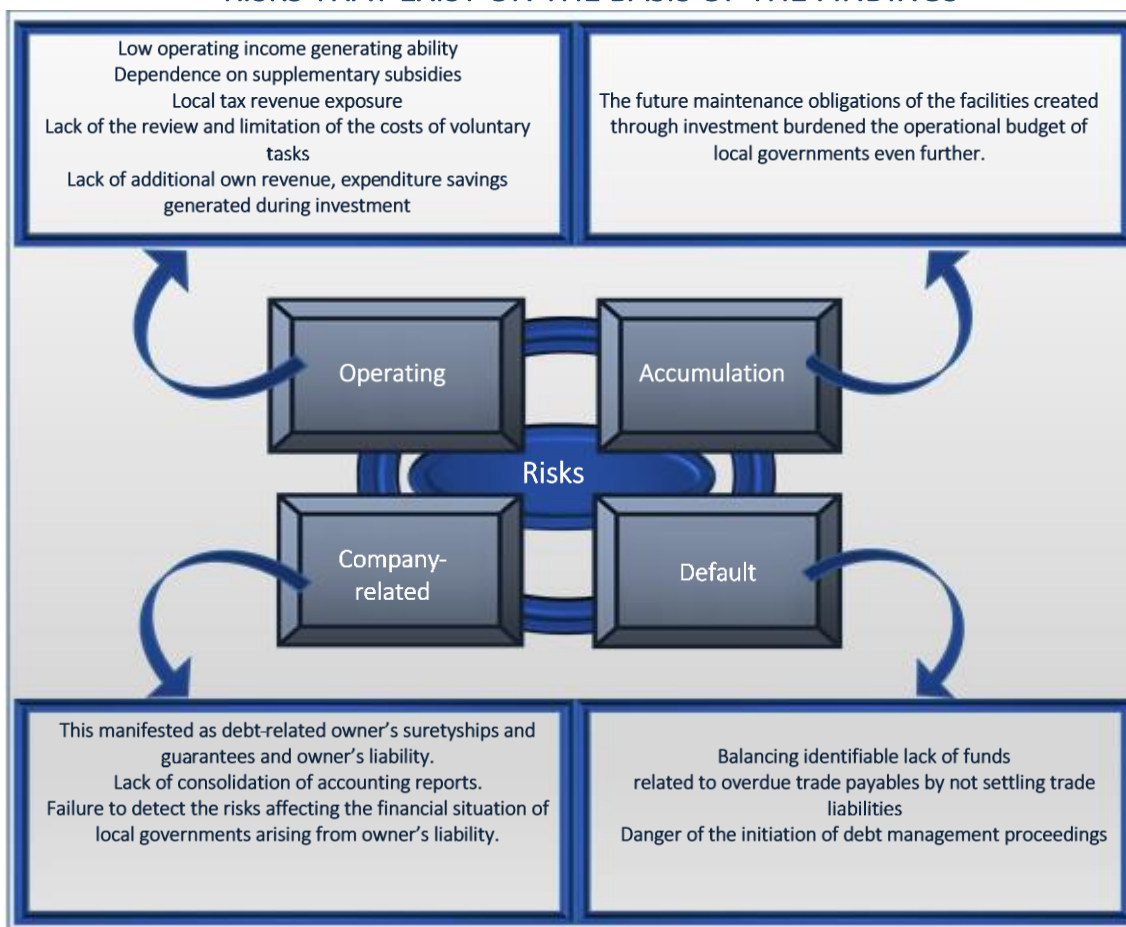


Findings

The SAO reports containing the findings of the audits of the 11 local governments are available by clicking on the settlement name in Section 3 of Annex 1 or can be downloaded from the SAO website (www.asz.hu). Additionally, the risks that exist on the basis of the findings are shown in Chart 30.

Chart 30

RISKS THAT EXIST ON THE BASIS OF THE FINDINGS



**OUR PERFORMANCE ON THE
AUDIT OF THE SITUATION OF THE
FINANCIAL MANAGEMENT OF
LOCAL GOVERNMENTS IN
NUMBERS**

11

SAO reports

100

Recommendations
based on findings
requiring action

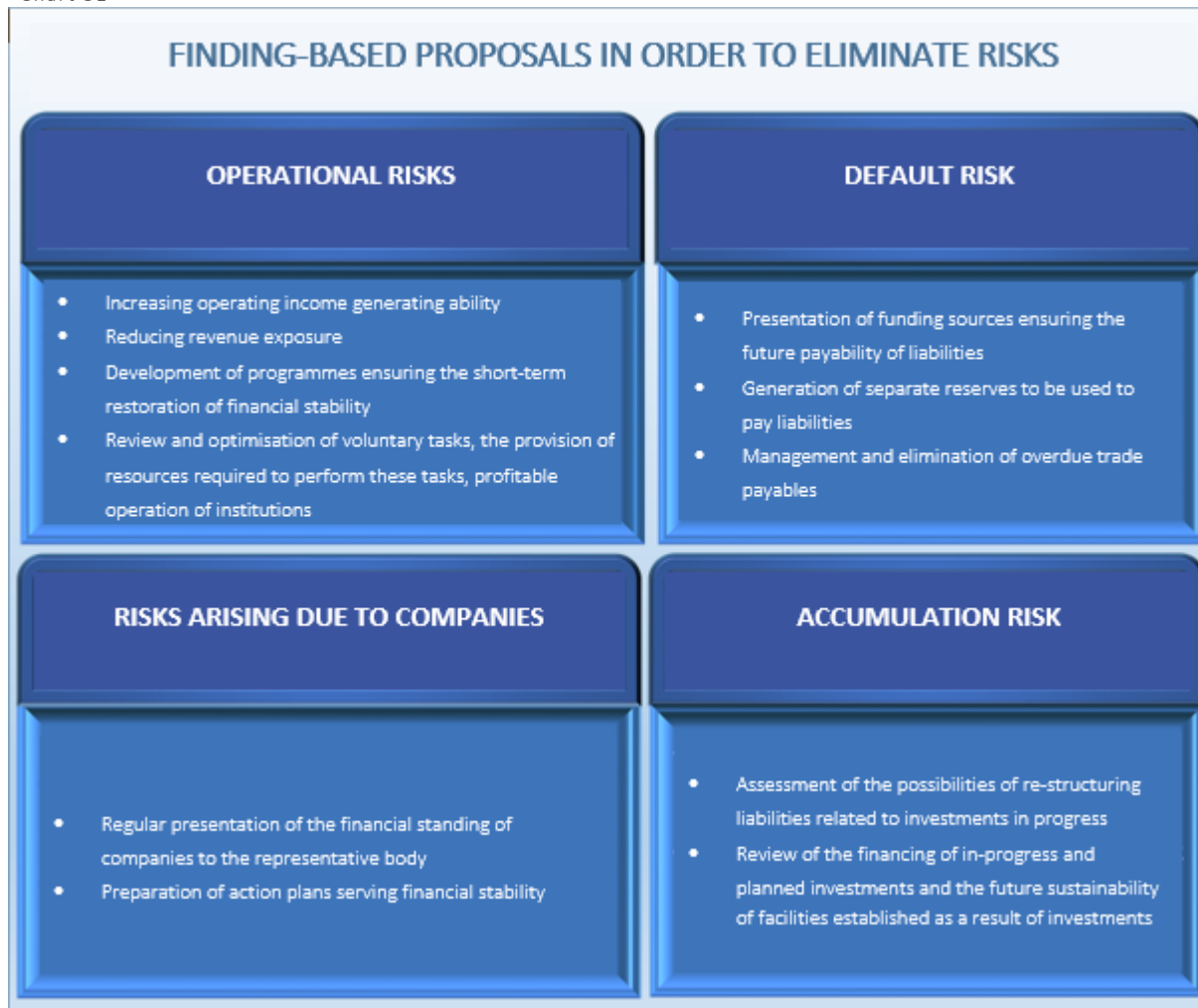
Conclusions

In the 2011–2013 period, the legal requirements and the detailed implementation rules governing the day-to-day operation of local governments changed fundamentally. In the interest of ensuring compliance with the more stringent financial management rules and of maintaining adequate public service quality, the reinforcement of the financial and economic foundations of the subsystem of local governments, i.e. debt consolidation, became necessary. Debt consolidation clearly had a favourable effect on the financial equilibrium of local governments. However, debt assumptions only proved to be a symptomatic treatment of the issues and could not eliminate the root causes, without which the debt problem will resurface. Maintaining financial balance in the long term, ability to ensure continuous liquidity and thereby ensuring appropriate quality, economically sound, efficient and effective task performance are all issues that remain to be resolved within the whole of the subsystem of local governments. Through debt consolidation, local governments have been given an extraordinary chance; however, that in itself is not a guarantee for the ability to create and maintain financial equilibrium and to avoid the re-accumulation of debt.

Recommendations

In the interest of creating and maintaining financial equilibrium, the continued, active cooperation of local governments and measures taken at their own discretion continue to be important. What we considered most important in terms of the recommendations in our reports was to ensure that the measures taken on their basis would be able to contribute to the improvement and improved long-term maintenance of the financial situation of local governments. The content elements of our recommendations are shown in Chart 31.

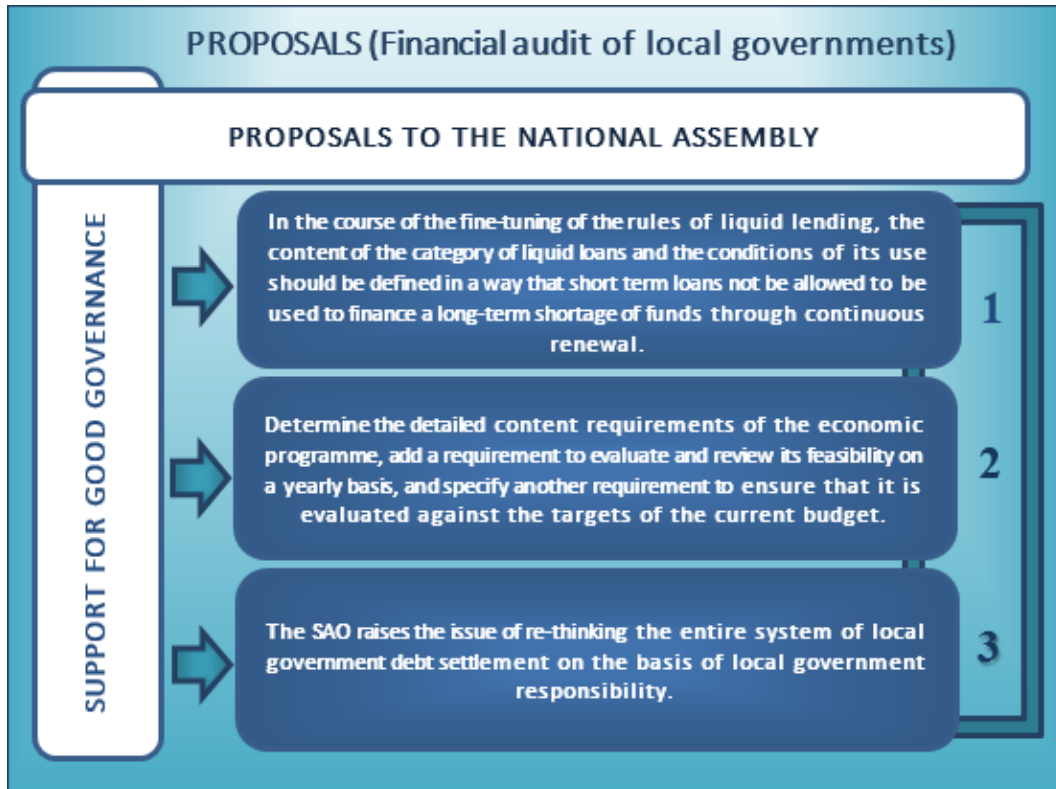
Chart 31



Proposals

The risks impacting financial equilibrium still exist in spite of debt consolidation. For this reason, we recommend that further legislative adjustments are made in addition to the legislative amendments already made. Chart 32 shows the proposals to the National Assembly and MPs, through which we would like to widen the range of vision and present the aspects relevant to the audit area.

Chart 32



6.3. Conducting follow-up audits of the local governments of 62 towns involved in the 2011 audit on the situation of the financial management and regularity of local governments

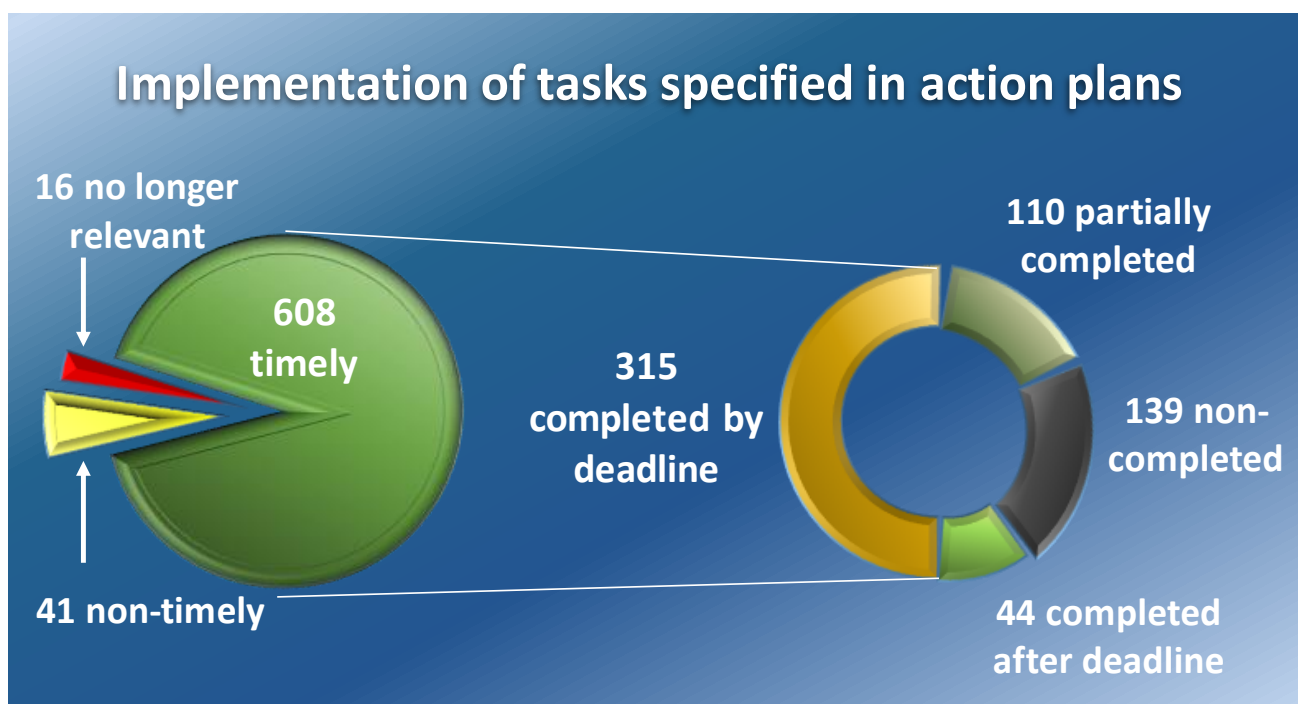
2014 marked the start of a new era, being the first year after the adoption of the new SAO Act in which we conducted follow-up audits based on an independent programme, thereby ensuring that we received feedback on the utilisation of our activity. Based on the findings of the follow-up audit – due to their representativeness – conclusions can be drawn for the whole of the subsystem of local governments. Therefore, a new, holistic summary was drafted on the follow-up audit; a summary that – in addition to the itemised audit findings – analyses and evaluates the effects and utilisation of the measures taken by the local governments at their own discretion and those taken by the government jointly, at the level of the subsystem of local governments. And also includes an overview of the tasks that will need to be performed in order to maintain the financial equilibrium of the subsystem in the future.

Disclosure serial no. and link [14224](#) **Findings**

Press summary [14224-O](#)

The SAO report containing the findings of the follow-up audit concerning 62 towns is available by clicking on the highlighted disclosure serial number or can be downloaded from the SAO website (www.asz.hu). The summary prepared for the press (also containing the main findings) is available at the link marked "O". The data on the implementation of the tasks specified in the action plans are shown in Chart 33, while the distribution of the prescribed tasks according to risk factors is shown in Chart 34.

Chart 33



OUR PERFORMANCE IN NUMBERS WITH RESPECT TO THE FOLLOW-UP AUDIT OF THE 2011 FINANCIAL AUDIT OF LOCAL GOVERNMENTS

665	audits of the implementation of specified tasks
77	percent utilisation rate
52	warning letters

What is financial risk?

Financial risk entails all the risks that have an effect on the financial situation of the organisation. For example, debt service-related risk, exchange risk, accumulation risk, solvency risk, risk of feasibility of the settlement of future liabilities, interest risk, guarantee risk, liquidity risk, risk related to off balance sheet items, default risk, etc.

What is debt consolidation?

The central measures taken in multiple phases following the publication of the government resolution on debt consolidation, which were aimed at the assumption of local government debt by the Hungarian state. The relevant provisions of the debt consolidation package were laid down in the Act on the Central Budgets of 2012–2014.

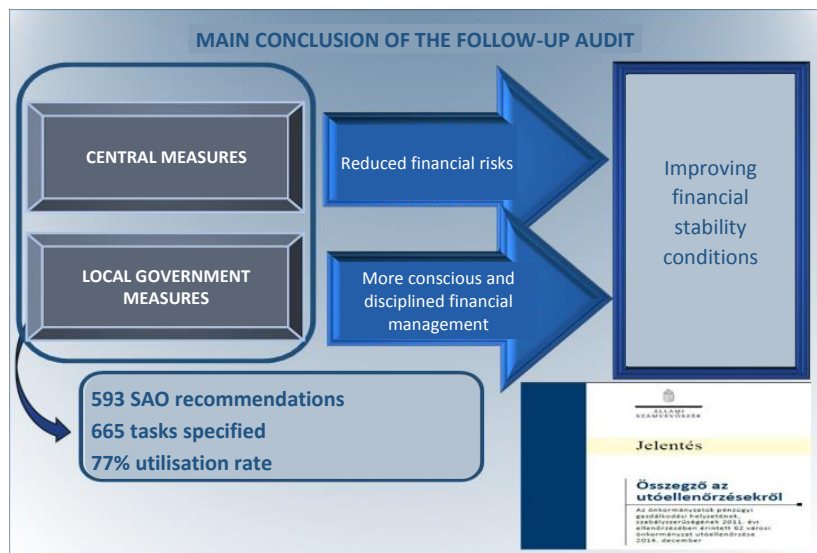
Chart 34



Conclusions

The measures taken improved the level of the awareness, predictability and discipline of the economic organisation measures taken by the municipalities. It is important to emphasise, however, that through the central measures taken – most importantly debt consolidation – the state has taken on a significant role in the mitigation of financial risks. Based on the conclusions drawn from the findings of the follow-up audit, as a combined result of the local and central measures, the conditions of maintaining financial stability in the long term have improved. The main conclusions of the follow-up audit are shown in Chart 35.

Chart 35



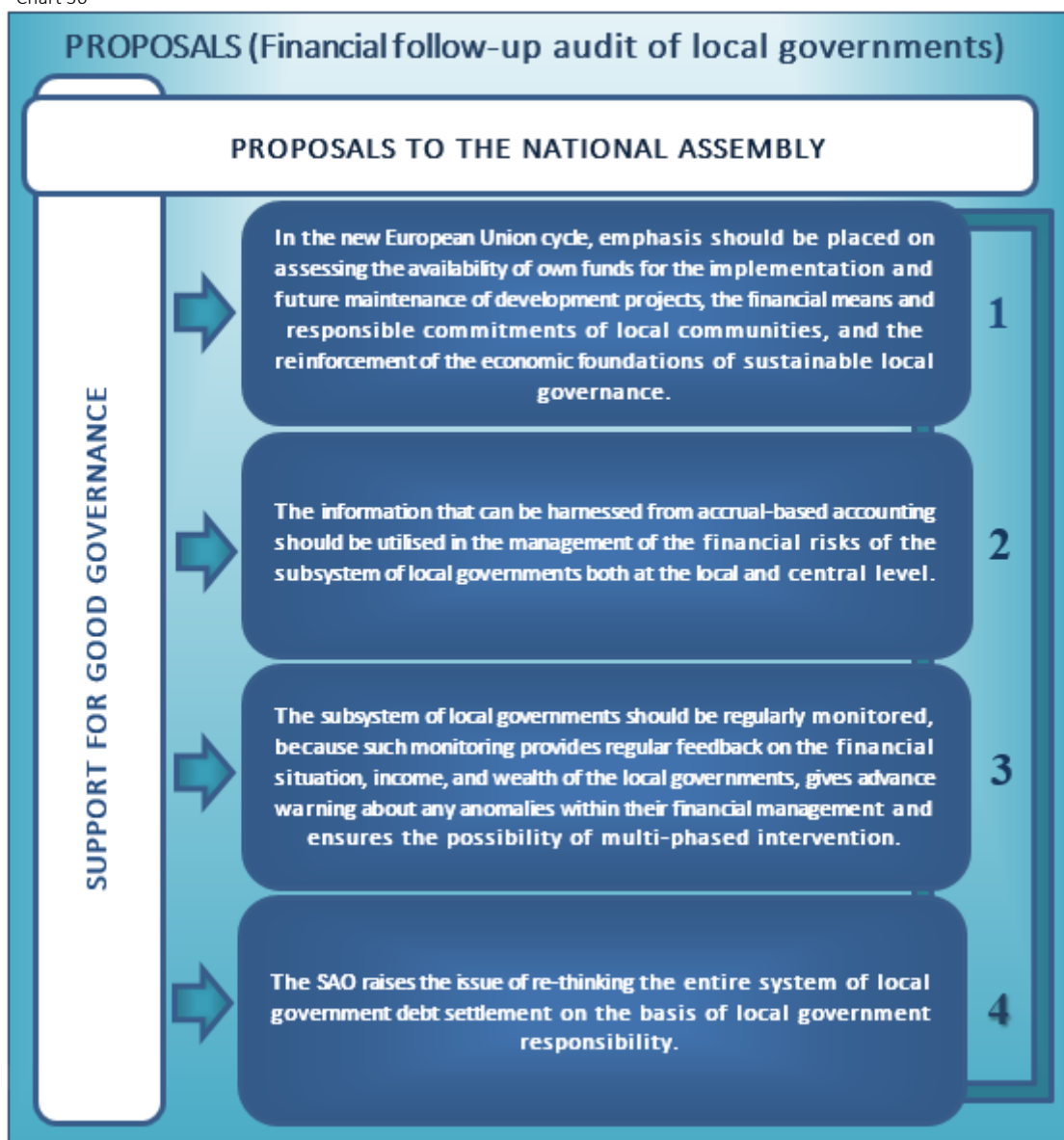
Based on the analysis of the budgetary statement data of audited local governments, from 2011 to 2013 there was a positive shift in terms of increasing operating income and reducing liabilities. The role and significance of supplementary subsidies in creating operating equilibrium were reduced. Due to the reduction of overdue trade payables, and a favourable change in the due dates of overdue liabilities, the risk resulting from trade liability exposure has been mitigated. The reduction in the volume of liabilities resulting from suretyships and

guarantee assumptions was partly accomplished because of the changes in the relevant legal requirements leading to the stringency also prescribed in the Act on the economic stability of Hungary.

Proposals

Over the coming period, priority will be accorded to the establishment and maintenance of operating equilibrium in the subsystem of local governments, thereby to ensuring the smooth and undisturbed performance of public functions. Chart 36 shows the proposals to the National Assembly and MPs, through which we would like to widen the range of vision and present the aspects relevant to the audit area.

Chart 36



6.4. The audit of the internal control system of local governments

In 2014, a total of 40 SAO reports were published in this topic. The primary objective of the audit of the internal control system is to improve the regularity of the internal control systems of audited local governments and that of the use of public funds; the compliance of operation; with the ultimate objective being the ensuring of the sustainability of equilibrium, in other words, the prevention of the re-accumulation of debt. By conducting the audit, the SAO has fulfilled its tasks set out in Article 5(6) of the SAO Act.



Findings

The SAO reports containing the findings of the audits of the 40 local governments are available by clicking on the settlement name in Section 2 of Annex 1 or can be downloaded from the SAO website (www.asz.hu). Moreover, in respect of the 40 audited local governments Charts 37 to 39 illustrate the distribution of the three audit areas according to assessment categories.

Chart 37

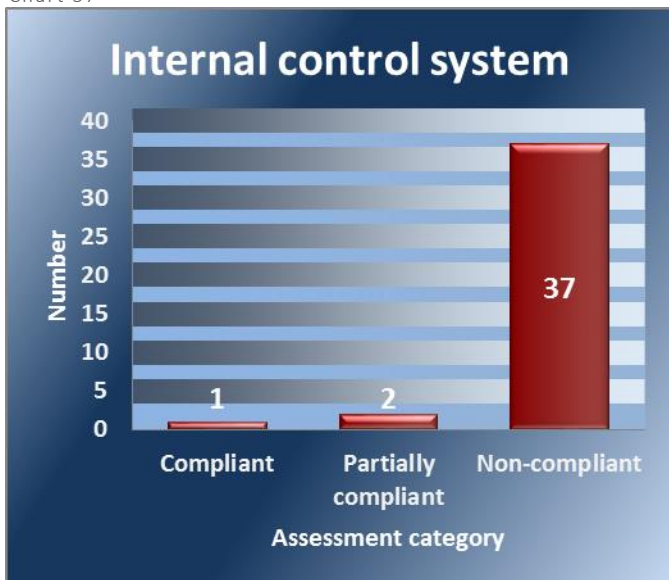


Chart 38

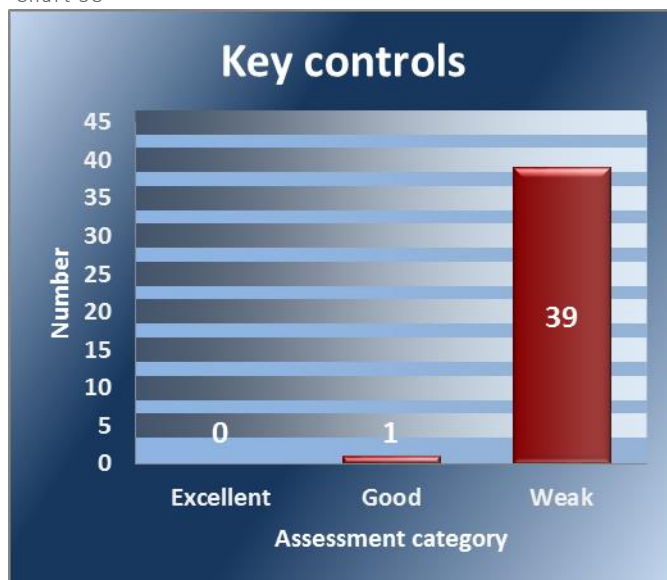
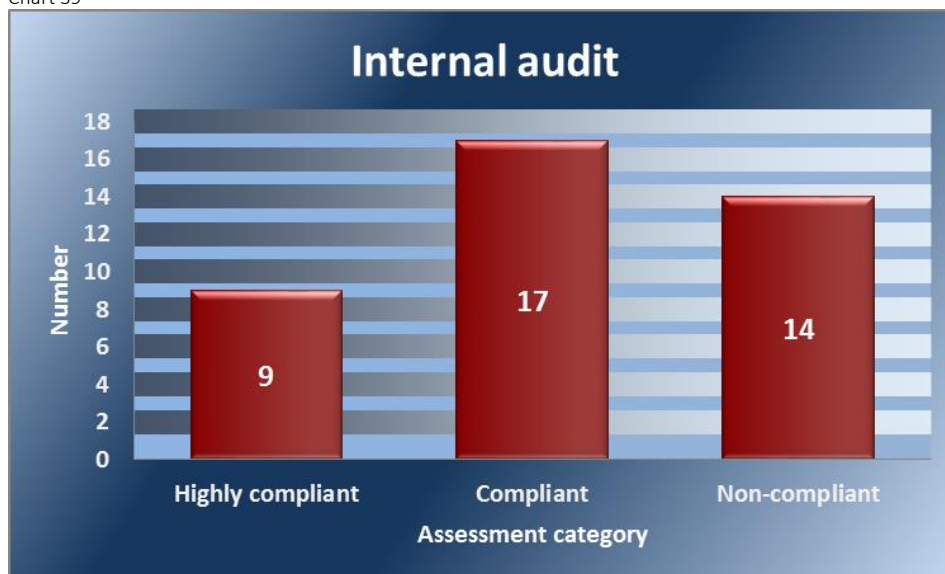


Chart 39



OUR PERFORMANCE IN NUMBERS WITH RESPECT TO THE AUDIT OF LOCAL GOVERNMENTS WITH REGARD TO THE INTERNAL CONTROL SYSTEM	
40	local governments audited
587	recommendations based on findings with obligations to take action

Conclusions

Given the numerosity achieved and the strategic objective of supporting good governance, the SAO analysed and summarised the experiences of the audit concerning 105 local governments conducted in recent years in a study. The conclusions should also be drawn in light of the analysis prepared. The audited entities were selected on the basis the SAO’s risk assessment, and as such near identical or similar results were determined in respect of the compliance of the establishment of the internal control system and the operation of internal controls. For both years (2013 and 2014), the establishment of the internal control system was not compliant with legal provisions for four out of every five local governments and the operation of key controls was weak as well. It should be noted, however, that this cannot be projected onto the whole of the local government system. Rather, this indicates that the SAO’s risk analysis system is functioning well and that the SAO has organised its audits in a highly efficient manner, in other words, that the SAO conducted its audits in areas where this was necessary.

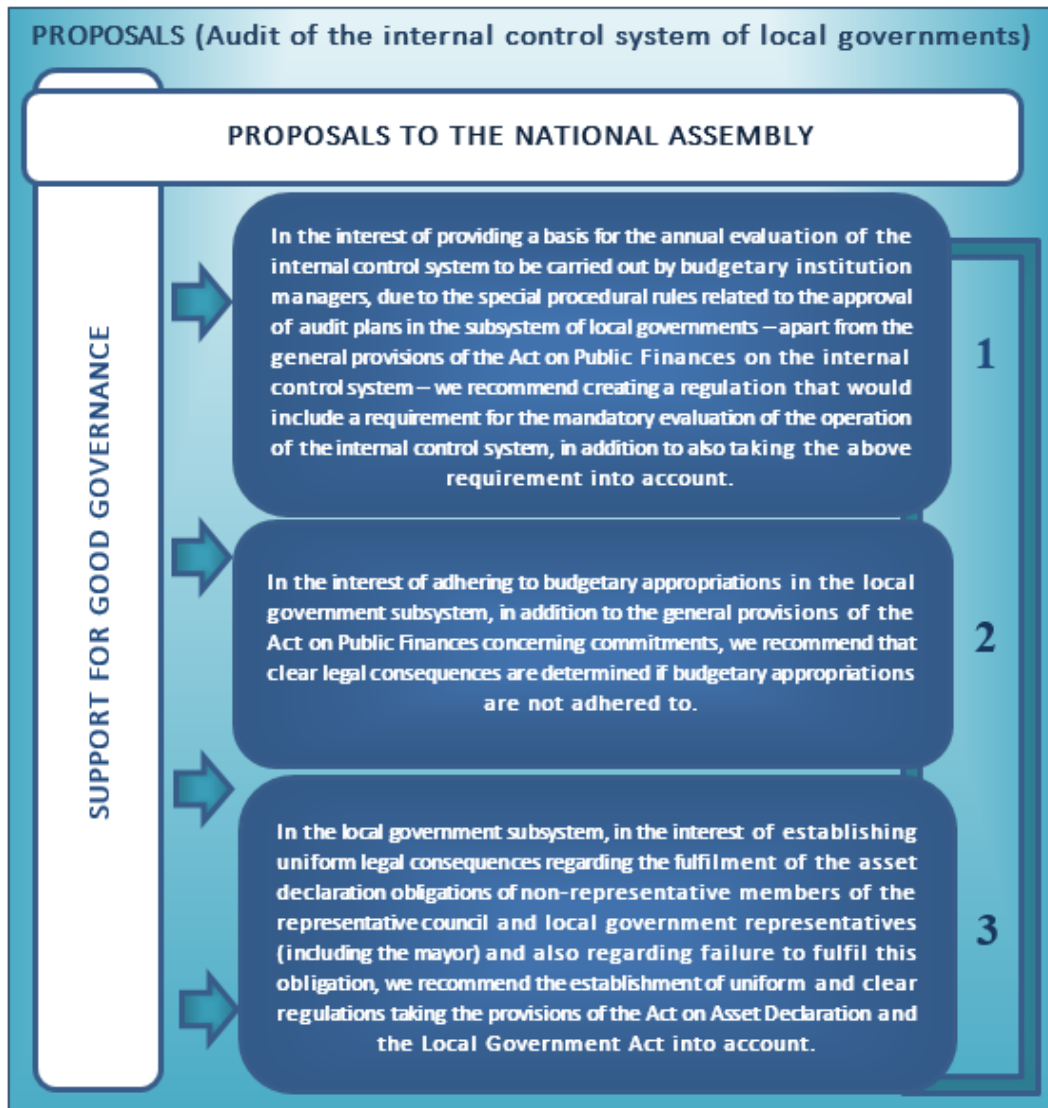
Recommendations

The SAO formulated a total of 587 recommendations to town clerks and mayors with obligations to take action. The recommendations to notaries concerned the appropriate supplementation of certain areas of the control system in compliance with legislation, and ensuring the appropriate operation of internal control in compliance with legal provisions. The recommendations addressed to mayors were aimed at the regular implementation of commitments, the regularity of asset declaration obligations, the continuous monitoring of the financial management of the local government and the investigation by the mayor of the causes of the deficiencies detected by the SAO.

Proposals

Chart 40 shows the proposals to the National Assembly and MPs, through which we would like to widen the range of vision and present the aspects relevant to the audit area.

Chart 40



In January 2015, the SAO called the attention of the heads of the ministries concerned to eliminating the legal contradictions and unclear provisions that arose during the audit of the internal control system through the amendment of legal regulations and to the necessity of establishing coherence between the various regulations.

Summary study on the experiences of the audit of the internal control system of local governments

In the interest of the utilisation of the thematic audits of the internal control system of local governments, the SAO prepared a study (T/369) on the audit experiences and the correlations of the internal control system, integrity and corruption risks. The study analysed the deficiencies and irregularities detected in respect of the 64 local governments audited in 2014, as well as the recommendations for the elimination of these irregularities. In the study, the SAO covered the correlations of the internal control system, integrity and corruption risks; the utilisation of reports; and compared these with the experiences of the audit of the internal control system of 38 local governments as conducted in 2012.

Number and link of study

T/369

Tanulmány

Az önkormányzati belső kontrollrendszer ellenőrzésének tapasztalatai

6.5. Audit of local government asset management

The SAO considers the audit of the asset management of local governments and compliance with the rules of asset management to be particularly important, as our audit experiences show that financial processes and equilibrium cannot be credibly evaluated without auditing assets. Accordingly, in 2014 the SAO published its report on the audit of the asset management of 6 settlements and 13 capital city districts. The audits covered the 2009–2012 period. By conducting the audit, the SAO has fulfilled its tasks set out in Article 5(4) of the SAO Act.

OUR PERFORMANCE IN NUMBERS WITH RESPECT TO THE AUDIT OF LOCAL GOVERNMENT ASSET MANAGEMENT

13	audited Budapest districts
6	audited settlements
97	recommendations based on findings with obligations to take action

Findings

The SAO reports containing the findings of the audits of the 19 local governments are available by clicking on the settlement name in Section 6 of Annex 1 or can be downloaded from the SAO website (www.asz.hu).

Conclusions

The absence of the regulation of asset management was primarily typical in the cases of local governments where the SAO has not audited internal controls in the past. According to our experiences at districts, the regulation of asset management was appropriate, however, practical enforcement was not fully asset management.

Recommendations

Based on the audit findings, we formulated recommendations to eliminate the regulatory deficiencies detected and the irregular practice.

6.6. The audit of local and minority governments

In continuing the audit of minority local governments, the goal of the SAO is to support the transparency and regular operation of the area, and thereby to strengthen the social embeddedness of minorities. The audit of the area also made up for the lack of external control and feedback. By conducting the audit, the SAO has fulfilled its tasks set out in Articles 5(2)–(3) of the SAO Act.

OUR PERFORMANCE IN NUMBERS WITH RESPECT TO THE AUDIT OF MINORITY LOCAL GOVERNMENTS

105	SAO reports
1,206	recommendations based on findings with obligations to take action
18	indications sent to the competent government office

Findings

The SAO reports containing the findings of the audits of the 105 local governments are available by clicking on the settlement name in Section 6 of Annex 1 or can be downloaded from the SAO website (www.asz.hu).

Conclusions

Our experiences of the audit show that the laws on minority rights are performed well. The laws in force stipulate the conclusion of a cooperation agreement approved by both local minority governments and the representative councils of local governments, and ensure the regular conditions of the financial management and operation of local minority governments. Another experience of the audits was that the regularity of the financial management of minority local governments greatly depends on the task performance, and its quality, of the office concluding the cooperation agreement with them and which also performs the economic activities of the local government providing the operating conditions.



Number and link of study

T/367

0-5-5-7-F-F-O-G-I-A-I-Ö-T-A-N-U-I-M-Á-N-Y



Ar öntevet alkalmazása, szellemi erőforrásai hozzájárulnak a helyi közösségek fejlesztéséhez, az intézkedések megvalósításához és ösztönözéséhez. Az öntevék hozzájárulnak az elmúlt években két évvel ezelőtt elindított területi ellenőrzés ahi végéhez, az öntevék tevékenységének folyamatos fejlesztéséhez, valamint az öntevék tevékenységének optimalizálásához.

Az ellenőrzések és a tanulmány hasznosulása

A 2011-ben hatályba lépett új szervezetekről szóló törvényben az öntevék tevékenységének megvalósítását, valamint az öntevék tevékenységének alapján az ellenőrzés megvalósításának szükségességét kell biztosítani, amelyet kötelező megvalósítani az Állami Számvevőszéknek. Így tehát egyelőre elvárás nem maradhat

Fehérvári, Ilkó: Helyi önkormányzatok, a jogszabályi előírás...

Recommendations

Based on the audit findings, the SAO formulated recommendations to the heads of audited entities in order to promote regular financial management. The audited entities prepared action plans for the SAO's findings, and have also sent information on the measures taken in response to the contents of the warning letters. By preparing action plans, the regulation and performance of functions related to the financial management of minority local governments and the fulfilment of the statutory obligation in the cooperation agreement concerning the provision of conditions can become more conscious and controlled.

Summary study on minority local governments


The goal of the summary study (T/367) is to provide citizens, local and minority governments, professional and civil organisations, the National Assembly and government bodies with a professionally sound assessment on the operation and financial management of minority local governments which had previously been unaudited by the SAO but are of public interest, as well as on the regularity of the public funds provided to perform minority tasks. The study processes the experiences of the audits covering 155 minority local governments which were completed by the end of the first half of 2014. The study summarises and evaluates both positive and negative experiences gained during the audit, shares the conclusions drawn, and presents audit results and widespread social utilisation.

Proposals to the National Assembly


Our audit experiences confirm the necessity of the regular monitoring activity by the local government subsystem, which should focus on the regularity of cooperation agreements and the fulfilment of mandatory review obligations. The monitoring of cooperation agreements could support the strengthening of the liability system of persons responsible for financial management. Our objective with the proposals to the National Assembly and MPs is to widen the range of vision and to present the aspects relevant to the audit area.

6.7. Audit on local government associations and their task performance

The transformation of the association system was a key part of the restructuring of the local government system which took place in recent years. Of the various associations operating on 31 December 2011, the SAO audited the regularity of association and task performance for 66 village local governments. The objective of the audit was to evaluate whether the association agreements concluded by village local governments and the operation of these associations were in compliance with regulations; whether the associations ensured regular task performance; and whether the findings and recommendations of earlier SAO audits were utilised. By conducting the audit, the SAO has fulfilled its tasks set out in Articles 5(2)–(3) of the SAO Act.

Disclosure serial
no. and link 

14194

Press summary 

14194-O

Findings

The SAO report containing the findings of the audit of local government associations is available by clicking on the highlighted disclosure serial number or can be downloaded from the SAO website (www.asz.hu). The summary prepared for the press (also containing the main findings) is available at the link marked "O".

Conclusions

The lack of accountable criteria, the deficiencies of content of association agreements and internal regulations, along with the operational irregularities arising from these, have limited the transparent, harmonised and regular task performance of these associations. More economic task performance by associations could not be confirmed.

Recommendations

We recommended to the presidents of six multi-purpose associations that they review their effective association agreements and to take measures, if necessary, in order to make sure that the association agreements contain detailed provisions on the exercising of founders' rights for the eventuality of a jointly founded institution. We recommended to the presidents of ten multi-purpose associations that they procure for the updating of their accounting policies and the statutes to be drafted on the basis of such policies. We recommended to the presidents of a quarter of the multi-purpose associations that they review their effective association agreements and take measures, if necessary, in order to make sure that the association agreements contain what is required by the relevant act of legislation. We made recommendations about the accounting settlement and the recording of developments to the town clerks of two local governments; while we made a recommendation to the town clerk of one local government to take detailed stock of the assets related to the local government's associated task performance. We recommended to the mayors of these three local governments that they start proceedings to investigate whether labour law liability can be established in connection with breaches of certain provisions of the Act on Accounting, and the reporting and book-keeping deficiencies and irregularities detected.

7. Audits with limited auditing powers

For these types of SAO audits, the audit scope is limited by law. This category includes the legality audits of the financial management of political parties and party foundations, the use of election campaign funds as well as the operation of the National Bank of Hungary (MNB). Given the fact that 2014 was an election year, the conducting of the related audit used up significant capacity.

7.1. The audit of parties and party foundations

It is the statutory obligation of the SAO (SAO) to audit the financial management of parties and party foundations that receive budgetary subsidies every two years. The SAO supports the National Assembly in reforming the legal framework by presenting in its reports the deficiencies detected during the legality audit of the financial management of parties and party foundations. By conducting the audit, the SAO has fulfilled its tasks set out in Articles 5(3) and (11) of the SAO Act.

OUR PERFORMANCE IN NUMBERS WITH RESPECT TO THE AUDIT OF PARTIES AND PARTY FOUNDATIONS

3 audited parties

3 audited party foundations

28 recommendations based on findings with obligations to take action

Findings related to audited parties

The SAO reports containing the findings of the audits of the 3 parties are available by clicking on the name of the party in Section 8 of Annex 1 or can be downloaded from the SAO website (www.asz.hu).

Findings related to audited party foundations

The SAO reports containing the findings of the audits of the 3 party foundations are available by clicking on the name of the party foundation in Section 9 of Annex 1 or can be downloaded from the SAO website (www.asz.hu).

Conclusions

The legality audits of the financial management of parties again confirmed the contradictions of the accounting and reporting system of political parties, which have been indicated for close to a decade. The regulations concerning party foundations do not carry sufficient guarantee that budgetary resources are used only for purposes set out in the given party foundation's deed of foundation.

Recommendations

Based on the audit findings, the SAO formulated recommendations to the heads of audited entities in order to promote legal financial management. The audited entities prepared action plans for the SAO's findings, and have also sent information on the measures taken in response to the contents of the warning letters. The legislator, also taking the SAO's experience of several years into account, amended the Party Act in several steps in 2014.

Proposals

Chart 41 shows the proposals to the National Assembly and MPs, through which we would like to widen the range of vision and present the aspects relevant to the audit area.

Chart 41



8. Audit of economic chambers

The experiences of the audit conducted in 2013 justified widening the audit coverage of this area. Moreover, the appropriate operation of this particular segment of the vocational training system represents the basis of dual training, which can contribute to increasing the country's competitiveness. By conducting the audit, the SAO has fulfilled its tasks set out in Article 5(3) of the SAO Act.

Disclosure serial no. and link

14055

Press summary

14055-O

Findings

The SAO report containing the findings of the audit of economic chambers is available by clicking on the highlighted disclosure serial number or can be downloaded from the SAO website (www.asz.hu). The main findings and the related figures are shown in Chart 42. The summary prepared for the press (also containing the main findings) is available at the link marked "O".

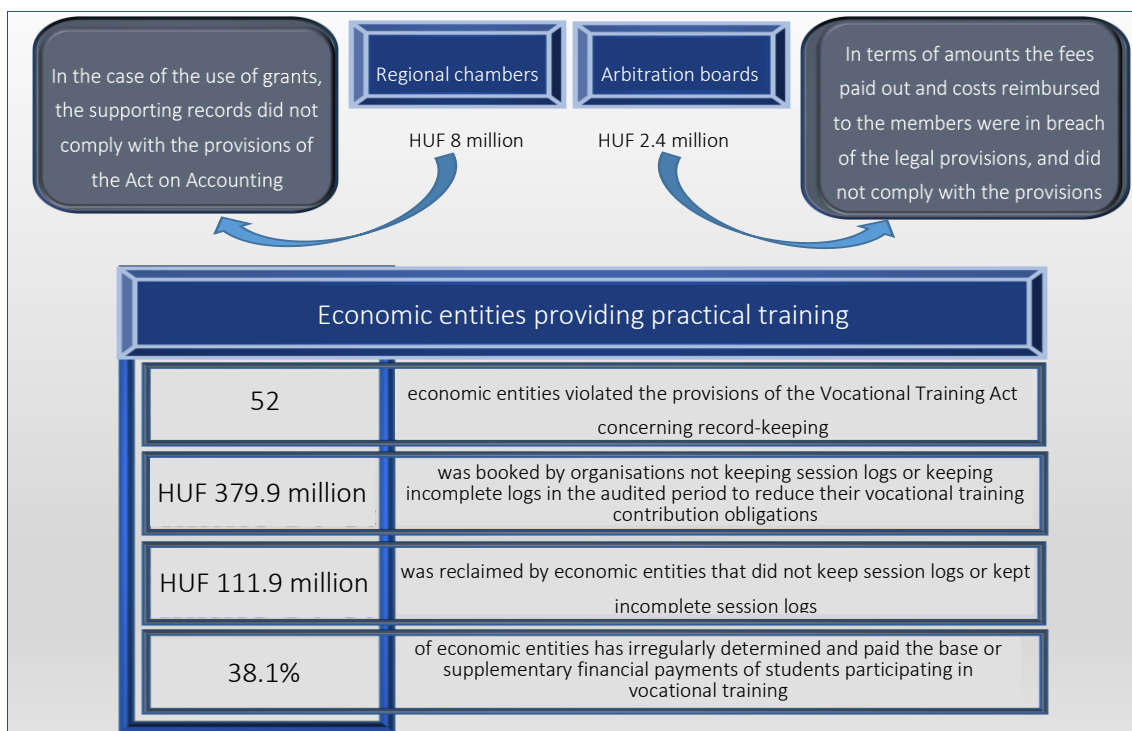
Conclusions

Based on the experiences of the audits, it can be established that the audit assignments, in particular the audit on the completion of practical training are either not regulated in the different acts of legislation, or not clearly regulated and that the audits are not closed.



Chart 42

THE MAIN FINDINGS OF THE SAO IN NUMBERS



OUR PERFORMANCE IN NUMBERS WITH RESPECT TO THE AUDIT OF CHAMBERS

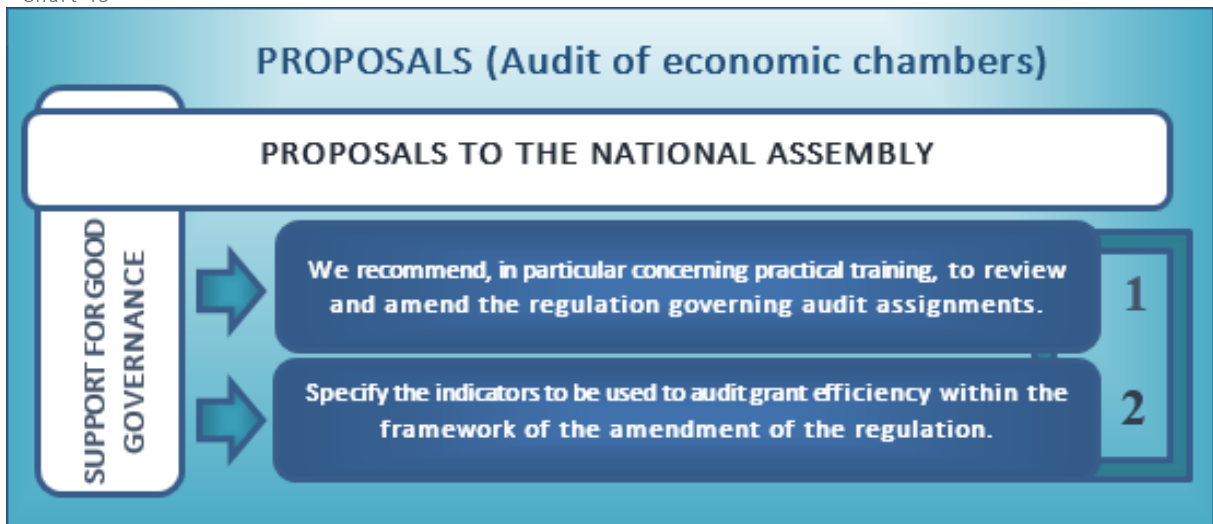
122	Economic entities audited
7	regional chambers of commerce and industry audited
2	regional agricultural chambers audited

Economic chambers play a crucial role in vocational training, but at the same time the irregularities detected showed that the audits of regional chambers were not effective. As a result, the vocational training system carries significant risk in terms of the implementation and appropriate quality, efficient provision of practical training and its auditing.

Recommendations

Based on the audit findings, we recommended to the regional chamber that they enforce compliance with the provisions of the relevant act of legislation on vocational training at the organisations providing practical training and for the presidents of the Arbitration Boards to review the regularity of the fees paid out to the members of the organisation. Chart 43 shows the proposals to the National Assembly and MPs, through which we would like to widen the range of vision and present the aspects relevant to the audit area.

Chart 43



9. Advice and analysis

These activities are highly diverse as they include providing an opinion on the bill on the central budget, the supporting of the performance of tasks by the Fiscal Council or the fight against fraud and corruption. In addition, the SAO also contributes to promoting the development of public finances as part of its advisory activities.

9.1. Opinion on the budget appropriation bill

It is the statutory obligation every year of the SAO to provide an opinion on the bill on the central budget of Hungary for the following year. By providing an opinion on the bill on the 2015 central budget of Hungary, the SAO has fulfilled its tasks set out in Article 5(1) of the SAO Act.

What is the difference between an opinion and a report?

The opinions formulated by the SAO are also based on audits; however, these audits are unique in that they do not end with a report containing findings requiring action. The end-product is an opinion addressed to the National Assembly, which calls attention to the tasks that still need to be performed before the Act on the Budget is adopted, and the amendments that should be made as well as the modifications that need to be transposed into the bill in order to ensure that the National Assembly is able to adopt at the closing vote an Act that more readily complies with the public debt reduction requirement as well as the equilibrium requirements.

PERFORMANCE IN NUMBERS WITH RESPECT TO COVERAGE (%)

88.9	Coverage for planned revenues
82.7	Coverage for planned expenditures

Criteria of formulating an opinion

During the audit, the SAO strived to determine whether the bill on the 2015 central budget of Hungary was substantiated, its appropriations corroborated, and whether the revenues could be met. We examined whether the Government had carried out the necessary background calculations and if the appropriate legal regulations were available or their amendment had been prepared. In addition, the SAO examined whether the deficit target could be reached, if the debt rule was observed, risks managed, along with assessing the plans for generating reserves.

Coverage and risk-based selection

The SAO audited 82.7% of the expenditures of the 2015 central budget bill and 88.9% of its revenues. The appropriations it did not audit were the ones that did not represent significant risk in terms of the budget targets either due to their size or based on previous experience of several years. Through its use of risk-based selection, the SAO strives to optimise the use of its resources, since auditing every little appropriation would require large capacities, while the risk of their fulfilment is minimal.

Opinion on expenditure and revenue appropriations

The SAO formulated its opinion using the method of itemised document auditing and analysis. Based on its published methodology, 93.38% of the audited expenditure appropriations were rated as substantiated, 6.58% were rated as partially substantiated, while 0.04% were rated as unsubstantiated. 71.9% of the revenue appropriations were rated as substantiated, 26.9% were rated as partially substantiated, while 1.2% were rated as unsubstantiated. 51.3% of tax revenues were rated as substantiated, while 48.7% were rated as partially substantiated. It should be noted that the bill did not contain unsubstantiated tax revenues. The “partially substantiated” ratings were related to the fact that once again the legislation for substantiating the budget was not fully available at the time of the submission of the bill.



Utilisation

The National Assembly discussed the SAO's opinion together with the budget appropriation bill, and as such the SAO's findings were utilised directly in the National Assembly debate. Two of the topics in the Opinion merit special mention; two topics that hold significance from the aspect of the preparation and adoption of next year's budget, and as such the SAO formulates a proposal thereon.

The reasons for proposals made to the National Assembly

57.6% of the total expenditure of the 2015 budget appropriation bill was uncapped expenditure appropriation. Their overall amount comes to HUF 9,946.3 billion, which is more than ten times the planned deficit target. It is clear, therefore, that such an amount represents a risk in respect of meeting the deficit target even if based on the experiences of the previous year, such expenditures did not significantly exceed the given appropriation. For this reason, it would be expedient to consider whether the application of this budget organisation method is truly necessary to this extent. We qualified the amount of HUF 60 billion for the Country Protection Fund as being partly substantiated. In the SAO's view this reserve should cover the revenue losses arising from macro-economic risks (such as the consequences of lower than planned inflation), as well as increases in expenditure (such as surpluses arising from higher than planned interest levels). Precisely for this reason, it should be carefully analysed and considered what amount of reserves should be put aside to manage quantifiable risks. The justification of the bill, however, did not elaborate on what type and rate of risks were taken into account when determining the HUF 60 billion appropriation. The SAO considers such preliminary calculations to be necessary for the future as well. The proposals are shown in Chart 44.

What are uncapped expenditure appropriations?

The appropriations – as listed in the annex of the Act on the Budget – of the central subsystem whose fulfilment may deviate (upwards) from the appropriation without amendment.

Chart 44



9.2. Supporting the performance of tasks by the Fiscal Council

Pursuant to the provisions of Article 5(13) of the SAO Act, in connection with the tasks of the President related to the Fiscal Council, the SAO prepares analyses and studies, and by making these available, it assists the Fiscal Council with the performance of its task. Moreover, the SAO also organises conferences in current topics and subjects, thereby also supporting the FC's work.



SAO analyses assisting the Fiscal Council in the performance of its functions (link)

[T/362 July 2014](#)

[T/363 August 2014](#)

[T/364 October 2014](#)

[T/368 December 2014](#)

Analyses and studies for the FC

Last year, the SAO prepared four analyses in order to support the work of the Fiscal Council. In accordance with the Stability Act, every six months the Fiscal Council provides an opinion on the status of the implementation of the act on the central budget as well as the expected change in public debt. In order to support the performance of this task, the SAO has prepared an analysis of the budgetary processes of public finances for the first six months of 2014 (T/362). Based on budgetary data and macro-economic processes for the first half of 2014, the analysis identified risky revenue appropriations the underperformance of which could endanger reaching the deficit target, or the expenditure appropriations, the overfulfilment of which could do the same. By quantifying and summing up these risks, the analysis assisted the FC in formulating a comprehensive opinion. The SAO also drafted an analysis for the FC for the purpose of the subsequent evaluation of the 2013 budgetary processes, which was published in August 2014, at the same time as its report on the audit of the final accounts (T/363). In its analysis of the macro-economic correlations of 2013 budgetary processes, the SAO strived to detect and present how 2010–2013 macro-economic processes impacted the balance of the budget and the development of public debt. By identifying the macro-economic trends that most impacted the accomplishment of budgetary targets, the SAO was able to facilitate the better substantiation of the 2015 budget appropriation bill. It was this objective that was directly served by the SAO's fiscal risk analysis, which contained criteria needed for the formulation of the FC opinion on the bill on the 2015 central budget (T/364). The SAO monitored the debate of the budget appropriation bill by the National Assembly. It provided an itemised assessment of the budgetary effects of amendment proposals of considerable impact which were supported by the National Assembly. Through its analysis summarising these effects (T/368), the SAO assisted the FC in making its decision on consenting to the final vote on the budget appropriation bill.

Conferences in order to support the work of the FC

In June 2014, the SAO hosted a conference entitled “*The Medium-Term Perspectives of Reducing the Public Debt Ratio*”. The FC's constitutional function is to safeguard the reduction of the public debt ratio for the given year. It can only perform this function effectively if it examines the key factors impacting this ratio in the long term. This particular task is supported by conferences organised annually by the SAO, which provide a forum for a dialogue between FC members, government bodies and academic workshops. It was in this spirit that in addition to the Chairman of the FC, the President of the SAO and the Deputy Governor of the MNB, a Deputy State Secretary as well as representatives of two academic



workshops also gave lectures at the conference. In spite of the restricted nature of these events, in the interest of publicity and transparency we report on all conferences organised by the SAO through the SAO News Portal.

9.3. Analyses and studies prepared as part of advisory activity

The preparation of analyses and studies has become a key element of the SAO's advisory activity for two reasons. Firstly, we live in swiftly changing world where after the eruption of economic crisis, new needs and demands have arisen against, amongst others, supreme audit institutions as well. These expectations made it necessary that supreme audit institutions do not just audit past events, but that as part of their advisory activity, their analyses and studies on present and future processes also gain attention. Secondly, the supporting of 'good governance' and the SAO role serving general social welfare both indicated that the development of this activity and achieving increased activity is justified. SAO analyses are primarily utilised as part of advisory activity, but may also serve as basis for audit topic selection. Most of our analyses are linked to audits, but on occasion we also prepare individual analyses.

OUR PERFORMANCE IN NUMBERS WITH RESPECT TO ANALYSES AND STUDIES (NOT FOR THE FC)

20	analyses and studies have been started
14	analyses and studies are in progress
3	analyses and studies have been made public
3	analyses have been used for risk analysis

Analyses and studies in numbers

In 2014, the SAO started the preparation of a total of 20 analyses and studies, 6 of which had been approved last year. Of the analyses and studies prepared, 2 are publicly available on the SAO website, while academic articles have been published on the summary of one study. Of these analyses and studies, one had been disclosed in 2014 and another in 2015.

Types of analyses

The so-called summary analyses linked to the various audits provide a situation analysis on the given area, based on which they formulate various observations and questions. The so-called exploratory analyses, which are not linked to audits, are primarily utilised in audit topic selection and the preparation of semi-annual audit plans. In addition, the SAO also prepares analyses as part of the supporting of the work of the Fiscal Council. The SAO also prepares a summary study every year in connection with Project Integrity. The system of analyses and studies is shown in Chart 45.

Chart 45



SAO analyses and studies not linked to supporting the task performance of the FC (link)

[Article series on economic competitiveness](#)

The objectives of analyses

The objective of SAO analyses is, amongst others, to map out priority areas of the public sector and public fund utilisation, to detect internal and external correlations, and to assess regulatory, operating and structural changes and tendencies and to evaluate their impact. In addition to the above objectives, these analyses contribute to reinforcing the professional reputation of the SAO and strengthening its advisory role. It is also typical that the analyses and studies prepared are linked to a specific SAO audit. This is particularly true in the case of thematic audits, where holistic-approach analyses may be prepared as a sort of secondary utilisation.

Economic competitiveness from an auditor perspective

The preparation of the study on economic competitiveness was encouraged by the need to gain a clearer picture on how the SAO could be able to impact the factors determining the GDP in the denominator of the public debt ratio. The SAO published a two-part article on the Public Finance Quarterly Online website, where it summarised the experiences of the study entitled “*Aspects and focus areas for the audit of government measures influencing economic competitiveness in public sector audits*”. Part one highlighted the subject’s topicality and the theoretical background of national economy competitiveness and the role of the state in particular, while part two analysed the methods of the assessment of government measures impacting competitiveness.

9.4. Strengthening financial awareness

There are several areas where the SAO can promote the development of public finances, and as such the SAO plays an active role in professional and academic life, and in the interest of widespread utilisation, it also makes good practices public property, and as far as corporate social responsibility is concerned, it supports the development of financial literacy.

What is financial literacy as interpreted by the SAO?

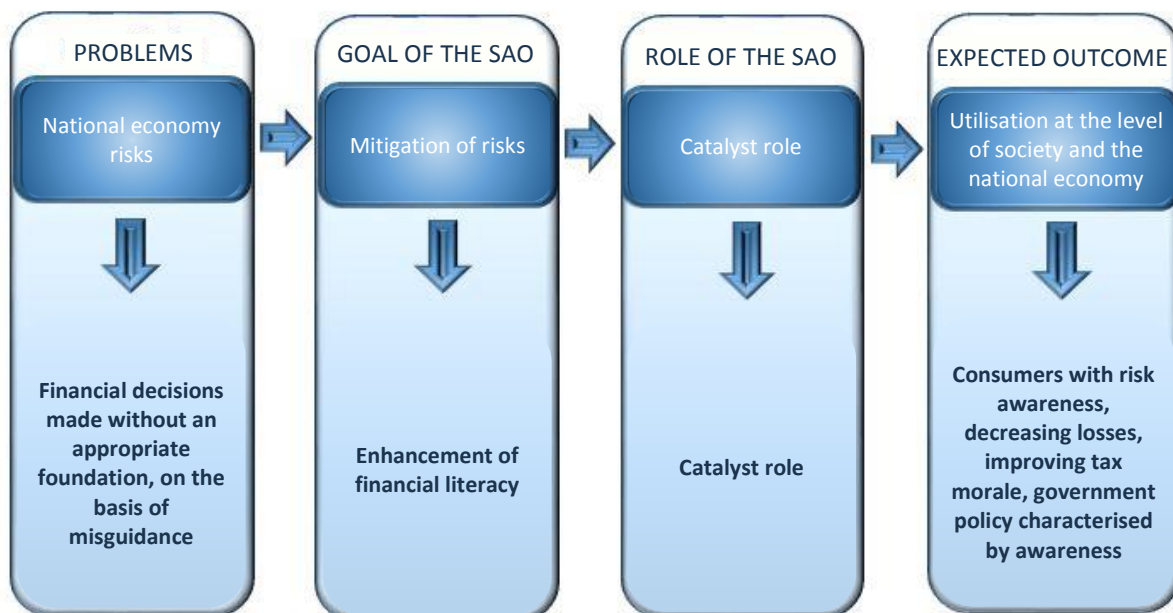
Financial literacy is a level of financial knowledge and skills that enables individuals to identify the fundamental financial information required to make their conscious and prudent decisions; and after the acquisition of identified data allows them to interpret said data, make decisions on their basis, all the while assessing potential future financial and other consequences of their decisions.

The development of financial literacy

One of the SAO’s objectives is to reduce risks to the national economy, an objective that can be accomplished through both audits and its advisory activity. The 2008 financial crisis made it clear that the unsubstantiated financial decisions of citizens made on the basis of misguidance represent grave risk at the social level. One of the ways of managing this problem is to develop financial literacy, something in which all competent state bodies should play a part in. The SAO wishes to contribute to the enhancement of the knowledge of the public about matters related to finances, public funds, and the sharing of public dues, and through that the evolution of attitudes and forms of behaviour related to public finances. The main financial auditing institution of Hungary has undertaken a catalyst role under corporate social responsibility effort, through which it creates added value both at the level of the national economy as well as society. With the cooperation agreement concluded on 8 May 2014 between the representatives of the SAO, MNB, and the Ministry for National Economy of Hungary, the partnership network of the institution is now based on two MoUs and two cooperation agreements. The goal of the cooperation agreement

signed in the reporting year was to ensure that the partnership of the parties facilitate the enhancement of the financial literacy and awareness of the public, thereby contributing to balanced economic development, better financial intermediation, the reduction of the financial vulnerability of the public and the mitigation of the risks of the financial system. In 2014, in its Resolution No. 41/2014 (XI.13.) the National Assembly recognised and supported the role of the SAO in enhancing financial literacy. The SAO wishes to continue to take the initiative and play a professional and scientific advisory role in the process of the enhancement of financial literacy. The SAO wishes to accomplish this goal by participating in the preparation of the national strategy, conducting a survey on domestic financial literacy initiatives, and by performing the tasks that arise from its existing cooperation. Chart 46 shows the related goals, role of the SAO and the most important forms of related utilisation.

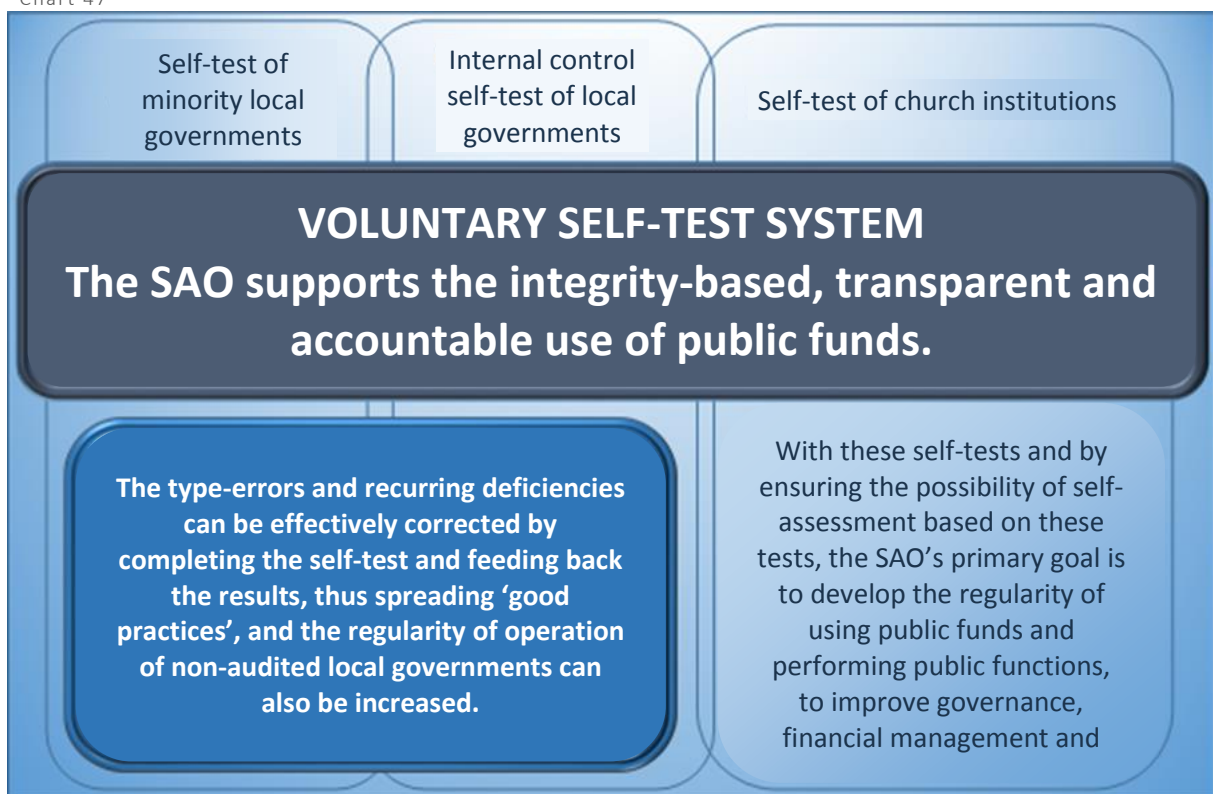
Chart 46



Self-test system

On the basis of the contents of the Fundamental Law, users of public funds are expected manage the resources provided to them by the state in a transparent, accountable and economical manner. The SAO has created several types of self-tests to support this objective. The first self-test was completed by Hungarian historic churches. With the self-test, the SAO wishes to provide support to the heads, leading bodies, proprietor bodies, organisations and institutions of church legal entities in connection with the use of public funds and their performance of public tasks related to the performance of professional functions for non-religious purposes. The objectives are shown in Chart 47. After churches, the SAO prepared self-revision tests for local governments and minority local governments as well. In respect of regularity, control and financial management, the serial audit of the internal control system of local governments and the thematic audit of minority local governments revealed type-errors and recurring deficiencies that may be corrected by completing the self-test compiled by the SAO, thereby the areas in question could be developed. With the application of the self-test system, the internal control system and self-audit capability of local governments could improve.

Chart 47



The self-tests aimed at the self-audit of the regular use of public funds by churches, local governments and minority local governments have been made available by the SAO on its website in electronic form as of 10 November 2014. The website traffic data for the 10 November to 31 December 2014 period is shown in Chart 48.

Chart 48



The Public Finance Quarterly

The Public Finance Quarterly is a public finance periodical published on a quarterly basis, which publishes academic articles and studies. Linked to the periodical, the SAO also operates an academic portal, the Public Finance Quarterly Online. This allows the SAO to increase and develop financial literacy on an even wider scale. In recent years, we have increasingly adapted the Public Finance Quarterly to the SAO's work. Today, most articles and studies are in some shape of form related to the professional directions pursued and the risks identified by the SAO. In 2014, the Public Finance Quarterly became an international periodical. While in previous years, practically only Hungarian authors submitted manuscripts, last year a considerable number of foreign authors contacted our editorial department. Last year, the Public Finance Quarterly published four issues, the focus areas of which were the following: competition and regulation, integrity, transforming local governments, and lifelong financial planning. Last year, the Hungarian website of Public Finance Quarterly was visited by 10,243 people, which represents total of 44,342 page views and 8,272 page downloads. In compliance with Parliamentary Resolutions No. 43/2005. (V.26.) and 35/2009. (V. 12.), as part of its advisory activity, the SAO transformed the Public Finance Quarterly into a quality, opinion leading, and academic standard public finance publication.

9.5. Fight against fraud and corruption

In respect of the SAO's role in the fight against corruption, as a starting point we must take the fact that the SAO Act called to life an agency-type supreme audit institution. This means that the SAO has no independent investigating powers and has no penalising options in respect of audit findings, but at the same time it may initiate proceedings with the competent authorities to enforce legal consequences. Based on the above, the SAO's primary role in the fight against corruption is prevention.

Integrity as the key to prevention

The most effective method of the prevention-based fight against corruption is to detect corruption risks and to create immunity against these risks. In the case of public institutions, protection is ensured by integrity, which strengthens the institutional immune system in order to prevent corruption. The main question of the preventive approach is whether a given organisation can identify areas of vulnerability to corruption and whether it has a protection system which supports both the organisation and the individual to withstand such threat. The SAO's Integrity Survey, which has been conducted each year since 2011, can help answer these questions. Survey milestones are shown in Chart 49.

Chart 49



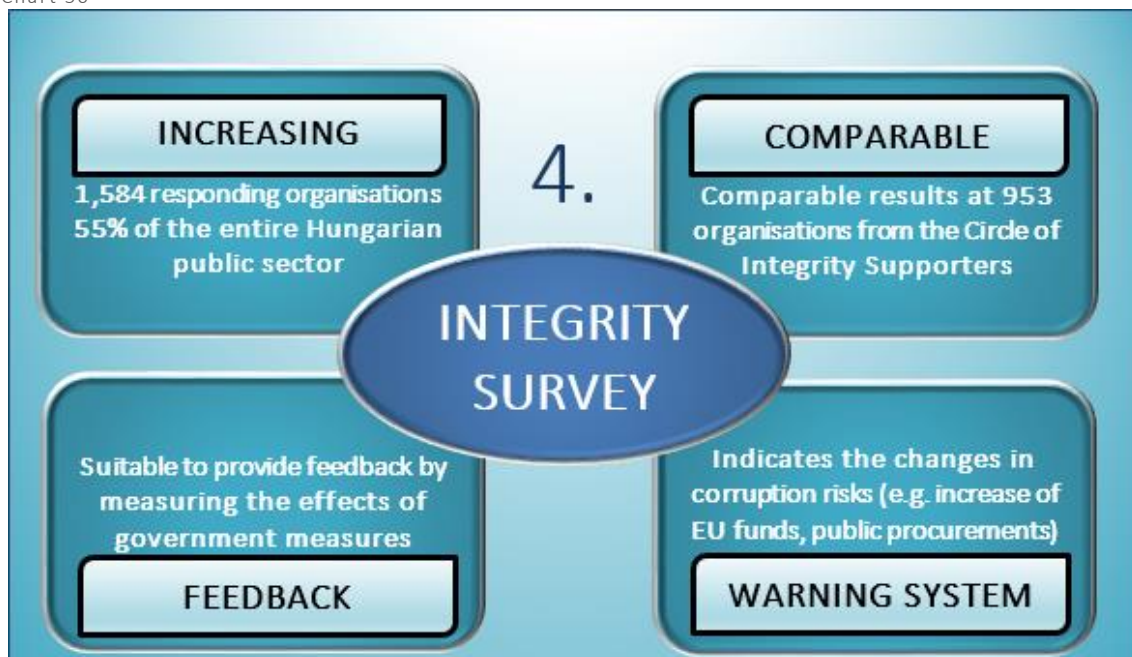
The Hungarian model

In the 2007–2008 period, as part of a so-called twinning-light project together with the Netherlands Court of Audit, the SAO became familiar with the internationally recognised Dutch practice of corruption risk assessment and analysis which enforces the requirements of the integrity-based operation of public administration. Using the know-how acquired, the SAO developed its own method and the launched Project Integrity in 2009. As a result, by adopting, enhancing and extending to the entire Hungarian public sector the Dutch method, aimed at strengthening the organisational integrity of institutions, the SAO developed a unique “Hungarian model”. The ‘Hungarian model’ promotes the introduction of an anti-corruption tool system, where it is not the authorities punishing citizens who have already gone astray, but much prior to this, the heads of public institutions committing to values and setting up internal operating environments through which they can protect their organisations and employees from the threats of corruption. This is important because a committed management stratum using public funds thus emerges in the fight against corruption in addition to supervisory bodies and authorities, which may be the key to success.

Main results of the 2014 Integrity Survey

The survey's results confirmed that the SAO's integrity survey is capable of providing feedback, monitoring tendencies, analysing the impact of government measures and indicating changes in corruption risks. It was an important finding of the 2014 survey that the government decree aiming to enhance institutional integrity management has resulted in major progress among the institutions governed by the regulation in a very short time. 2014 survey results also showed the surge in the utilisation of European Union funding and in the number of public procurement projects, which led to an increased level of vulnerability to corruption.

Chart 50



In consequence, the SAO's integrity surveys function as a sensitive instrument responding to any increase (or decrease) in corruption risks. Of the institutions that undertook long-term cooperation, 953 completed the questionnaire this year as well, thus the results can be compared to those of the previous year without distortion. The SAO has determined that their corruption risks have dropped slightly, but at the same time, their levels of control have increased, in other words, the gap between risks and controls has narrowed compared to 2013. By conducting the Integrity Survey (launched in 2011) on a yearly basis with increasing participation, through the results achieved the SAO also performed the related tasks set out in Parliamentary Resolutions No. 72/2008. (VI.10.) and 35/2009. (V.12.). The main results of the 2014 (fourth) Integrity survey are shown in Chart 50.

The utilisation of the Integrity survey in audit activity

One of the main pillars of the SAO activity aimed at reinforcing integrity is the audit of the institutions' internal control systems as one of the bases of integrity, as well as the incorporation of the aspects of integrity into the audit programmes. The SAO integrated the tools used for the definition of the vulnerability to corruption and the establishment of controls into 14 audit programmes in 2014, evaluated these in the case of more than 300 institutions and disclosed the findings in SAO reports.

THE OPERATION AND DEVELOPMENT OF THE ORGANISATION

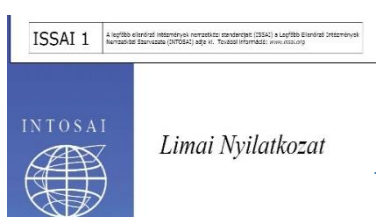
In the past four years, the SAO underwent a comprehensive transformation process where practically all activities, areas and process were reformed. There is no doubt that this renewal was indeed necessary as the implementation of tasks set out in the new SAO Act, compliance with international requirements and meeting the demands of citizens and, last but not least, the National Assembly all required complete internal transformation. Thanks to the results of recent years, the SAO today safeguards the transparency, accountability and development of public finances as a strong, independent institution. It is very important, however, that we maintain our dynamism in the area of organisational development. In summary, our work does not stop, but the tools change. The use of these new tools, however, requires a level of development that ensures the flexibility and self-learning ability of the organisation. This has been accomplished and the organisational development steps of the years ahead will be determined by means of peer review in harmony with continuous self-assessment and international standards. The SAO is being developed in line with the international methodology directives.

1. Professional results supporting SAO operations

In 2014, the SAO continued its methodological renewal, the objective of which is to ensure the transparency of audit methodology through audit principles in line with international standards. The report year was also characterised by increased international activity. In addition, the SAO also focused on organisational self-assessment and on establishing internal processes allowing the adoption of international good practices.

1.1. Methodological revision

In its methodological strategy, the SAO sets out as its objective the further development and updating of existing audit procedural rules and methods, and the preparation of missing audit-specific professional and methodological documents. The further development of existing audit-specific professional regulations and the preparation of missing rules are performed by taking relevant international provisions, guidelines and standards into account. The SAO's system of audit-specific professional regulations considers the INTOSAI framework to be authoritative.



The SAO's system of audit-specific professional regulations

The Lima Declaration (ISSAI 1) at the first level of the INTOSAI framework is at the same time Level 1 of the SAO's system of audit-specific professional regulations. Level 2 contains the principles of SAO operations. In line with the audit-specific framework – viewing the standards created, adopted and issued by the INTOSAI as authoritative – , the SAO has developed the items guaranteeing its independence, the principles of transparency and accountability, the Code of Ethics, the

principles of quality-driven operation as well as the principles of the utilisation of its work. On Level 3 of audit-specific professional regulations are the fundamental auditing principles (government auditing standards): the general principles of SAU auditing and the audit principles for the various audit types (financial, performance, compliance), as well as related methodology guidelines. The SAO's system of audit-specific professional regulations is illustrated by Chart 51.

Chart 51

The system of professional regulations of SAO auditing				
System of documents that represent the theoretical basis of audit-specific regulations			Governing ISSAI	
Level 1	Lima Declaration		ISSAI 1	
Level 2	The principles of SAO operation	Items guaranteeing independence	ISSAI 10	
		SAI's principles of transparency and accountability	ISSAI 20	
		Principles of ethics	ISSAI 30	
		Principles of quality-driven operation	ISSAI 40	
		Principles of the utilisation of SAI work	ISSAI 12	
Level 3	Fundamental auditing principles (SAI auditing standards)	Fundamental auditing principles	General auditing principles	ISSAI 100
			Financial auditing principles	ISSAI 200
			Performance auditing principles	ISSAI 300
			Compliance auditing principles	ISSAI 400
		Implementation guidelines	Implementation guideline for financial auditing	ISSAI 1000
			Implementation guideline for performance auditing	ISSAI 3000, 3100, 3200
			Implementation guideline for compliance auditing	ISSAI 4000, 4100
			Other guidelines	Other INTOSAI guidelines*

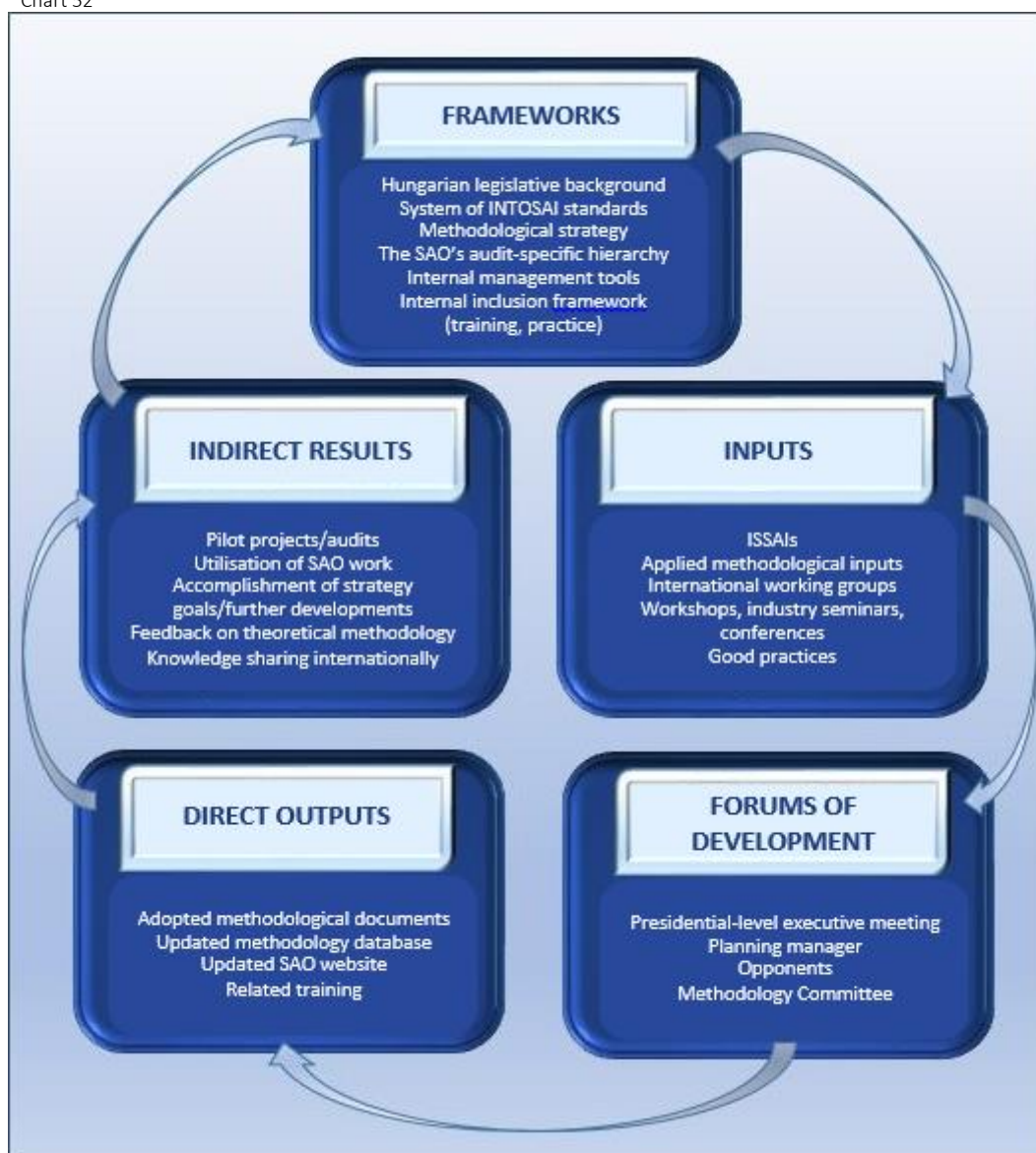
* other four-digit INTOSAI guidelines

Methodological developments in 2014

The methodological development of 2014 focused on the *four fundamental auditing principles* on Level 3 of the SAO's audit-specific professional regulations. All of these fundamental auditing principles consider the ISSAI standards adopted at the XXI INTOSAI Congress of Beijing in October 2013 to be authoritative, which place the audit of the public sector on a joint professional foundation on a global scale. The fundamental auditing principles developed by INTOSAI working groups distinguish three different audit types: financial audits, performance audits and compliance audits. The fundamental auditing principles to be applied to all these audit types are set out in the Basic Principles in Government Auditing (ISSAI 100). As part of the methodology development of 2014, of the four fundamental auditing principles, special priority was given to the development of general and compliance auditing principles (which took the new ISSAI 100 and 400 international standards to be authoritative). The methodological document entitled Basic Principles in Government Auditing speaks to both the public

(intended users, taxpayers) and auditors. Its objective is to provide guidance at the basic principle-level for SAO audits, and at the same time to make the methodology background of SAO audits, and thus the SAO's activity, more transparent. The specific fundamental principles concerning compliance audits are contained in the methodology document entitled *"Compliance auditing principles"*. By introducing compliance audits, the SAO is establishing a wider audit-specific background in the area of the audit of the regularity of the use of public funds. The development of the methodology documents entitled *"Financial auditing principles"* and *"Performance auditing principles"* has also commenced. The renewal of the methodology of final accounts audits has been concluded, and the methodology document was published on our website in January 2015. The system of methodological development is illustrated by Chart 52.

Chart 52



1.2. The SAO’s annual action plan

In 2013, the SAO renewed its methodology regarding the preparation of the annual action plan, which resulted in structural and content-related changes in the 2014 action plan. We have reinterpreted the function of the annual action plan in the organisation’s planning system. The SAO’s 2015 action plan was prepared afterwards, utilising the above experiences and in line with the basic principles of self-learning organisations.

What is the annual action plan?

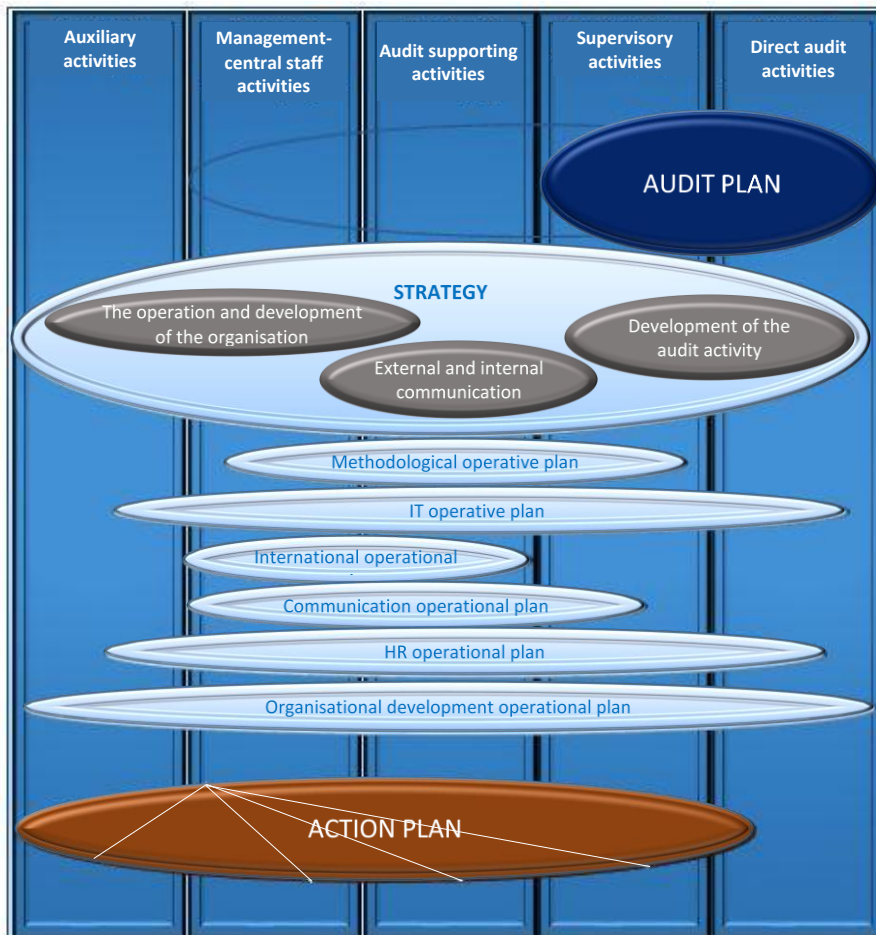
As a tool of management/control, the SAO’s annual action plan includes key tasks concerning the performance and development of audit activity aimed at the public sector and the “professional infrastructure” assisting the audit work, as well as other tasks not part of its action plan (e.g. HR, IT, etc.).

Positioning the annual action plan in the planning system

As far as the group criteria are concerned, the annual action plan is an internal plan that is fully public, covering the organisation of the SAO in full and its activities in part and which is part of the complete planning system. The annual action plan, therefore, should be separated - while retaining the points of contact - from the audit plan. Separation from institutional and functional strategies and operational plans, and the elimination of potential overlaps in terms of content are also justified. As a result of the renewal, in the 2014 action plan the organisation set out tasks that were clearly separated from both the audit plan and the strategy paper system. The operation and activity of the SAO are defined by several planning documents. Chart 53 presents the interrelation of three plans of key importance in respect of the SAO’s professional activity and operation.

Chart 53

THE SYSTEM AND INTERRELATION OF SAO PLANNING DOCUMENTS



Content of the annual action plan, and principles of preparation

When preparing the annual action plan, we paid special attention to ensure that the final document was based on wide-scale internal consultation. The Action Plan contains the tasks that arise from the cooperation of the majority of the organisation and/or which define the SAO's operation, financial management, task performance from the perspective of the whole of the organisation, and which tie up the SAO's human resource capacity – either in a project system or a traditional department structure – in a relevant manner. When determining the tasks of the action plan, we also took the legal regulations specifying the SAO's tasks and powers into account. In connection with the above, and at the same time in the interest of ensuring quality-controlled operation and appropriate controlling-monitoring functions, the legal reference serving as the basis of task performance was also indicated.

1.3. Self-assessment and peer review

Self-assessment and peer review are internationally recognised methods of analysing and evaluating the efficiency of institutional operation. The two are closely related as it is generally accepted practice that peer reviews are preceded by self-assessments. The application of both methods serve to identify the SAO's directions of development in a substantiated manner.

What are peer reviews?

The voluntary audit of the supreme audit institution of a given country by another supreme audit institution (or several SAIs), either a general audit or that of a specific professional area. Participants themselves decide on the content, scope and methods of the audit as well as on the utilisation of results.



International role-taking and peer reviews

The goal of Subcommittee 3 of INTOSAI's Capacity Building Committee is to promote the raising of awareness of best practice and to ensure quality via peer reviews. The SAO is a member of the Subcommittee. A separate working group was set up to review the ISSAI 5600 guideline on peer review (adopted in 2010), of which the SAO is also a member. The annex to the guideline, the so-called structural sections were prepared by the SAO as a member of the working group. This included the topics of strategic planning, human resources, motivation, recruitment, training and support functions (IT, community relations and communication).

Establishment of the internal system of conditions

The conceptual creation of the internal processes of peer reviews was concluded in 2014. The establishment of the internal system of conditions of peer reviews and self-assessment serves a number of objectives, from increasing accountability through ensuring feedback developing consistent quality to acquiring the related special know-how. The voluntary audit of the supreme audit institution of a given country by another supreme audit institution (or several SAIs), either a general audit or that of a specific professional area. Participants themselves decide on the content, scope and methods of the audit as well as on the utilisation of results.

Information technology self-assessment

In 2014, under the supervision of experts of the Swiss Federal Audit Office, the SAO performed an information technology self-assessment. The objective of the self-assessment was to examine and assess the

harmony of operational and IT processes, the level of support of operational processes and to make recommendations regarding directions of development.

Communication self-assessment

Last year the SAO completed its communication self-assessment, which was followed in 2015 by the peer review conducted by the Polish and Lithuanian audit offices. The self-assessment aimed to contribute to a comprehensive evaluation of our communication activity and thus to the long-term development of our external communication. The subject of the self-assessment was external institutional communication regarding the publicity and utilisation of SAO reports and the management of the organisations and institutions affected by our activities. The self-assessment concluded that over the four-year period between 2010–2014, the SAO's communication activity underwent a fundamental renewal. The SAO has established a system fostering the broad utilisation of its output and "good governance" that yields insight to citizens on the operation of the publicly funded institution and the use of taxpayer money.

Cooperation to develop IT methodologies

In 2014, the SAO paid special attention to nurturing professional relations enabling the adoption international good practices. In this spirit, in May 2014 the SAO and the Hungarian ISACA association entered into a cooperation framework agreement. The purpose of the cooperation was to contribute to the dissemination of the latest IT auditing and IT security methodologies and to support the transparent and secure operation of the financial and economic systems of public entities through the improvement of the IT audits of the SAO.

1.4. International activity

In 2014, the SAO was once again very active on the international stage, with SAO activity characterised by the sharing of good practices and the building of Eastern relations.

Active international role

In 2014, the SAO was once again highly active internationally, in the most diverse areas. The SAO attended the INTOSAI Conference on Ethics, which focused on the applicability of issues of ethics in audit work. The SAO also monitors current international events in respect of the transition to accrual-based accounting. In line with this, the SAO also took on a role in the separate working group of European supreme audit institutions. The working group was created to track and provide opinions on the activity of the working group established by the European Commission which deals with the development of control principles and structure related to European Budgetary Accounting Standards. In 2014, the SAO attended the EUROSAI congress as well as the preceding Governing Board meeting. At this latter meeting, President László Domokos also presented information on the operation of the Quality-Control Good Practices Database managed on the SAO's English language website as well as on the results achieved. The members of the delegation led by the President were highly active the



In plenary and thematic sessions of the EUROSAI congress. In the interest of the implementation of Parliamentary Resolution No. 41/2013. (V.27.) on the acknowledgement of the report on the 2012 activity of the SAO, the SAO got in touch with the organisation operating within the INTOSAI dealing with the capacity building of developing countries (IDI) in order to be able to provide professional assistance as contributor in IDI programmes.

International conferences

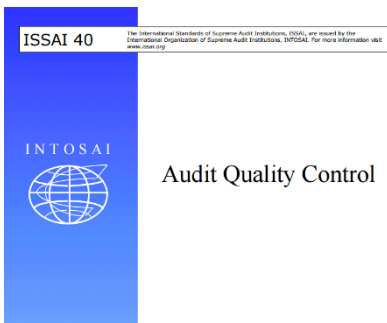
In 2014, the SAO hosted two large-scale international events. At the industry conference held in March 2014 entitled “International Good Practices Seminar - Strengthening the Integrity of the Public Sector”, SAO experts presented the methodology of the organisation’s Integrity Survey as well as related experiences. As part of the event, 35 representatives of more than 20 developing countries were introduced to the ‘Hungarian model’. The other priority of the SAO was the international seminar also held in March 2014, which focused on SAI independence. The event saw representatives of the supreme audit institutions from several European countries gave lectures on the prerequisites and consequences of SAI independence.

2. Organisational results supporting operations

It is the SAO’s strategic objective to function as an exemplary institution. The SAO wishes to serve as an example to economic entities using public funds by focusing on quality requirements, establishing the conditions of liability and accountability on a wide scale, by developing existing individual knowledge, by recognising commitment, and through the appropriate establishment and operation of the internal control system.

2.1. Quality-controlled operation

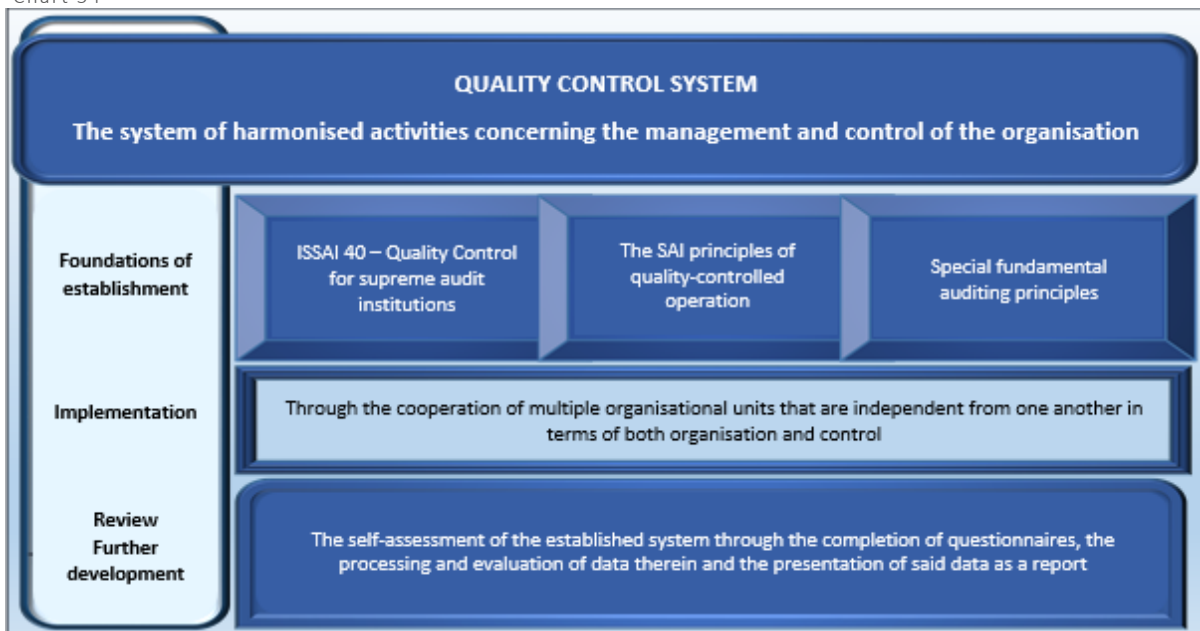
In the interest of fulfilling the legitimate needs of citizens and to gain and preserve positive perception by the public, the SAO is continuously increasing its level of organisation and applies the system of quality guarantees with legality in mind. As part of quality-controlled operation, the SAO establishes, constantly reviews and develops its processes and procedures related to quality in order to ensure that its audit conclusions and findings are as substantiated, reliable and relevant as possible, and furthermore, to ensure that the SAO reports prepared are of appropriate quality. During the establishment and operation of its quality control system, the SAO took the ISSAI 40 international quality control standard as basis, which standard provides a foundation for the high quality implementation of quality control measures.



The quality control system

The quality control implemented is a system of harmonised activities concerning the management and control of the organisation, which covers the entirety of the audit area. During the quality assurance process, all documents created as part of the SAO’s audit activity is reviewed in several steps. The audit-related letters and SAO reports published by the President are sent after the process-integrated, multi-level review of content and the monitoring of key control points in respect of form and regularity. The quality control system is shown in Chart 54.

Chart 54



2.2. Internal control environment

The internal control environment is a strategic element of the SAO's internal control system, and as such the organisation places great emphasis on ensuring that the operation of its units is transparent, credible and can be traced back to up-to-date controls.

What is the audit function and its supporting and supplementary function?

The function directly related to the audit ensures the implementation of audits and the most efficient use of audit capacities possible.

The audit supporting function ensures direct audit support by facilitating the smooth conduct of audits. The supplementary audit function ensures the conditions of the regular, economical, effective, efficient and reliable operation of the SAO.

Up-to-date internal control environment

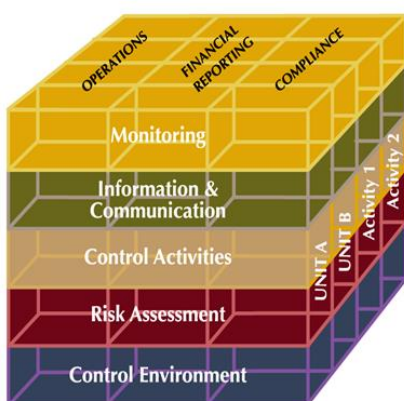
In the interest of harmonising regulation and flexible work organisation, in 2014 approximately 30 internal regulatory tools were amended and issued. Parallel to this, we made preparations to renew the entire regulation system and place it on new foundations, with the related operative works set to continue in 2015.

Strengthening of responsibility and improving proposals

During the year the need to assign concrete responsibility to the level of regulation has come to the forefront, and through that the enforceability of accountability, which we integrated into our organisational and operational rules (Rules of Organisation and Operation, rules of procedure). Moreover, we have also completed the further development of the content and format of the proposals and auditor working papers drafted by the organisational units performing supplementary auditing, audit support and central staff functions. The set of requirements on the format of proposals improved their quality, resulted in more efficient managerial decision-making and contributed to the development of the organisational culture of the SAO.

2.3. Internal control system

Through its own operations, the SAO wishes to become an example to be followed for public entities. Therefore, we are committed to the continuous development of certain elements of our internal control system to ensure that in addition to complying with the legal requirements our internal processes are characterised by quality.

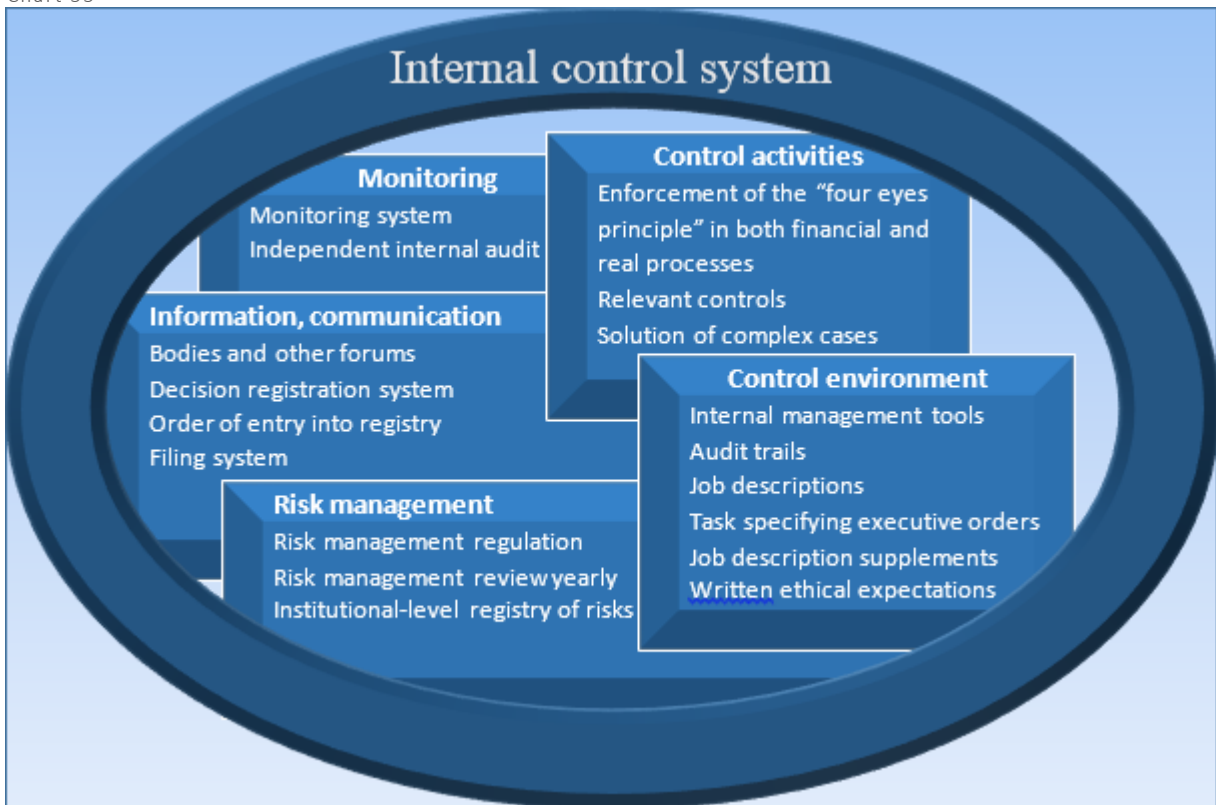


The comprehensive review and operation of the internal control system

“Continuous organisational renewal” is a fundamental value specified in the strategy of the SAO, which the internal control system must also keep up with. In line with the organisational changes, the SAO continuously updates and develops its control environment, risk management system, control activities, ICT system and monitoring system. The internal regulations forming part of the **control environment** clearly define the scope of activities. The internal management tools (directives, measures, regulations) and the Rules of Procedure specifying the tasks of the individual organisational units – of which audit trails form an integral part, thus ensuring the tracking and follow-up audit of activities – the two of which cover the entire scope of activity of the SAO, have been created on the basis of the main tasks of the SAO. The management tools cover the entire scope of activity of the SAO, define the tasks, levels of responsibility, reporting obligations and auditing powers. The management tools are updated on a regular basis and they support the processes with the appropriate level of efficiency. The Human resource

management system and the job descriptions created within its framework – as well as the task-specifying executive orders and job description supplements that form an integral part thereof – specify managers’ and employees’ tasks to an adequate degree of detail. Ethical expectations are laid down in writing. The SAO operates a **risk management system**, has risk management regulations, the use of which allows for the determination of the probability of the occurrence of identified risk factors, their effects on the organisation, while at the same time the value of the risk factors and their method of management are also recorded. Risk management is reviewed every year, in connection with which the SAO has created an institutional-level registry of risks that endanger its strategic objectives. Within the framework of the annual integrity survey project, the SAO did not only assess the corruption risks pertaining to the invited budgetary institutions, but also the ones that are relevant to its own organisation. Within the framework of **control activities**, the separation of tasks and powers within processes and their precise segregation automatically contributed to the supervision and maintenance of control over processes, thereby significantly mitigating the probability of risks occurring. The up-to-date registration and follow-up of those exercising authority is also supported by an IT application. The “four eyes principle” was applied in both financial and real processes, and the continuity of task performance was ensured. The relevant controls supporting the audit activity ensured the appropriate quality implementation of the individual, professionally distinct activities as well as the independence of units and persons engaged in the task performance. The five pillars of the internal control system, and the elements they comprise are shown in Chart 55.

Chart 55



The information and communication system operated on the basis of the managerial support, information and decision preparatory bodies and other forums and the decision registration system created on the related ICT foundation, operated adequately at every level of management. The creation of the order of the registration of the documents, the use of an appropriately structured filing system and the regulation of access rights supported the follow-up of documents and the protection of confidential information. The order of internal and external contact are defined by the internal management tools. The monitoring system operated by the SAO ensured – in accordance with the provisions of the economic and technical regulations – the continuous control of the activities through the control system. The monitoring of the audit activities was carried out to an appropriate level of efficiency, based on the relevant controls. The functionally independent internal audit conducted in accordance with the relevant legal provisions supported the efficient operation of the SAO's internal control system through the assessment performed during monitoring.

2.4. Headcount-related information

When determining the organisation's objectives, the SAO's Human resource strategy also takes into account the fact that people are not just resources, but also subjects of human dignity and fundamental rights, and as such valuable in themselves. In addition, it is the SAO's strategic objective to strengthen its capacity, develop the organisations external and internal ability to react in order to give substantial answers as soon as possible to the challenges that arise (changes in the environment and the expectations of the authoritative public opinion). The authorised headcount of the SAO last year was 598 persons.

Headcount data according to academic qualifications and gender

The closing headcount of the SAO as at 31 December 2014 was 580 persons. 63% of these were women, and 37% men. In the case of both genders, the ratio of persons with higher education degrees was 91%. 91% of the SAO's personnel hold higher education degrees, while 9% have basic or secondary academic qualifications. No significant change was observed between 2013 and 2014 in respect of the distribution of personnel regarding academic qualifications and gender. The breakdown of headcount by academic qualifications is shown in Chart 56, while the breakdown of personnel by gender is shown in Chart 57. The distribution of headcount by academic qualifications and gender is shown in Chart 58.

Chart 56

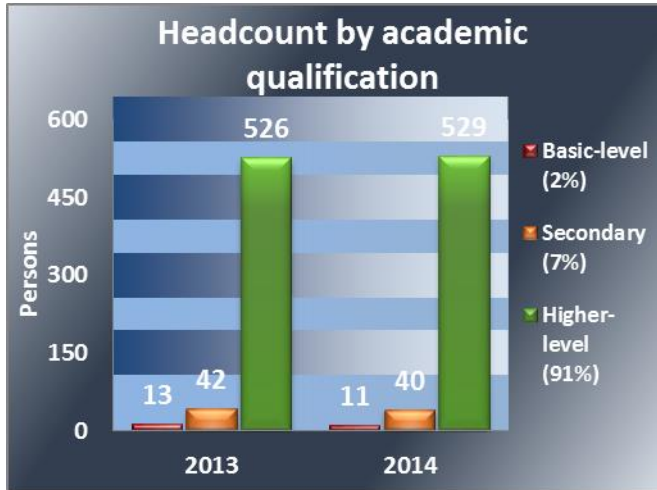


Chart 57

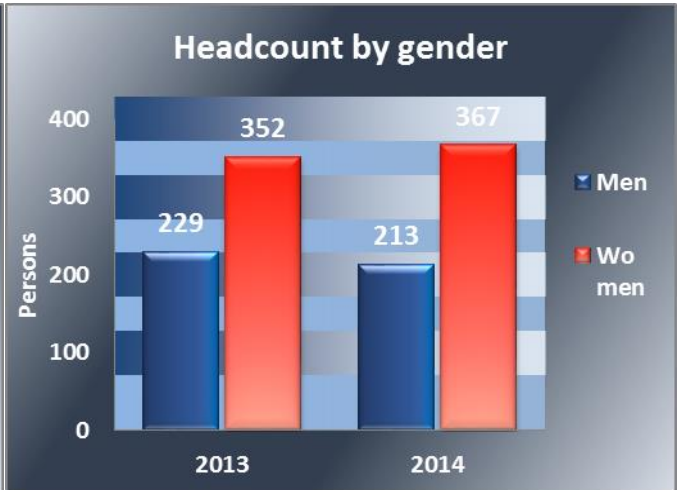
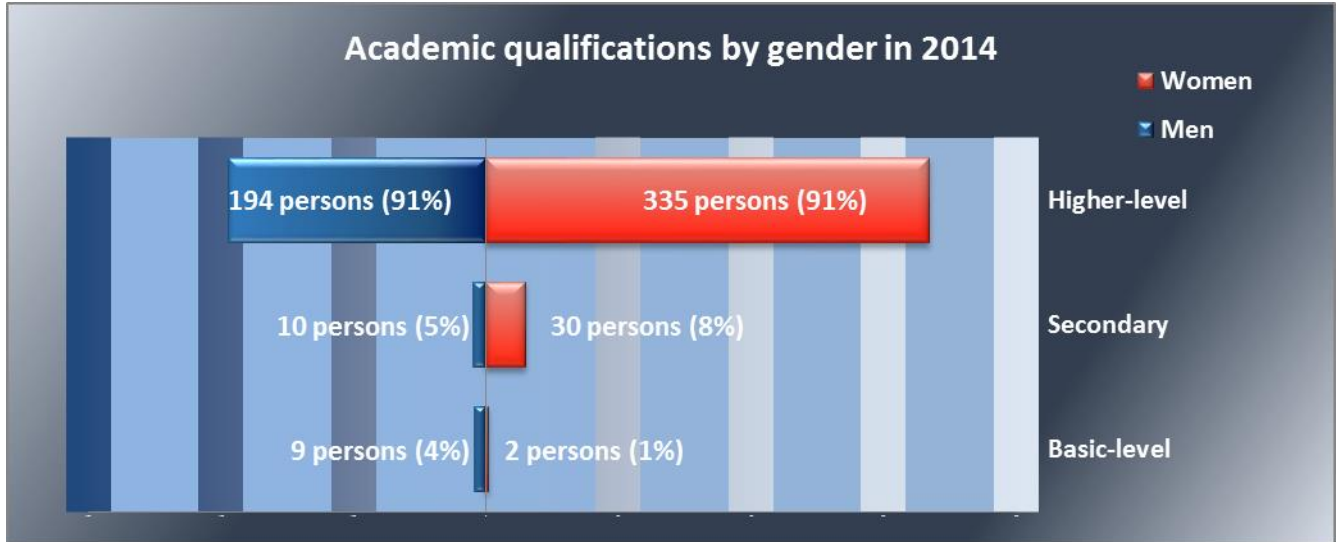


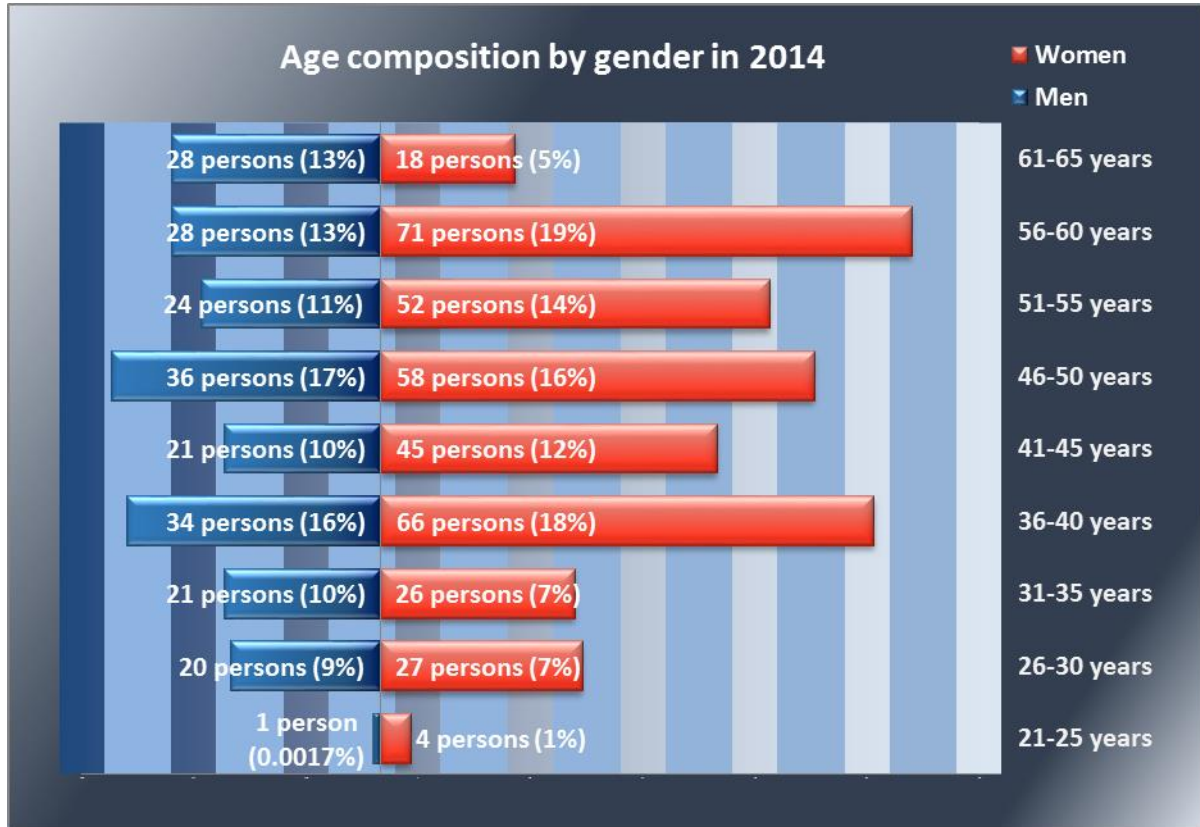
Chart 58



Results

The SAO's personnel has considerable professional and work experience based on age composition as well, as close to half of total headcount is between the ages of 36 and 50, while the ratio of those above the age of 51 is 38%. Moreover, the younger generation also holds a place in the organisation as the ratio of those under 35 reaches 17%. This latter figure has improved as a result of the trainee programme launched as part of corporate social responsibility and which today has become integrated into the youth training programme. The age composition of SAO personnel according to gender is shown in Chart 59.

Chart 59



2.5. Training system, performance assessment, career model

It is the SAO strategic goal to ensure that the most important professional value, i.e. professional knowledge, is preserved and developed. As an innovation for 2014, we have linked the results of performance assessment (including the areas of employees to be developed) with the training system. We believe that associates who are committed to SAO goals in the long-term and who are ready for the continuous renewal of professional know-how view outstanding performance and quality not just as a strategic goal but as an organisational value. This approach and performance-oriented operation is also supported by the auditor career model.

OUR PERFORMANCE IN NUMBERS WITH RESPECT TO THE TRAINING SYSTEM

9 trainings and examinations concerning the entire organisation

3.6 Number of trainings per person

Training system

The SAO started the reform of its training system in 2013, and the contents of the curriculum-development concept prepared therein was adopted into practice in 2014. We created the methodology of the development of internal curricula, and have also concluded the preparation of the first group of curriculum authors. At 'train the trainer' trainings, associates became familiar with the main information and requirements concerning the creation of curricula. It was based on this that the first curricula that were in line with organisational objectives were created. The SAO also places great emphasis on analyses, which is why one of the first curricula developed dealt with statistical knowledge. Similarly to previous years, we upheld the training volume and employees attended an average of three trainings during the year. The majority of trainings (primarily internal trainings) were also accompanied by mandatory examinations. Last year there were 9 trainings and/or examinations concerning the entire organisation. Of these, we should

mention the training related to accrual-based accounting as well as the examinations concerning various methodology documents and the changes of internal regulations. The number of trainings per person was 3.6 days. Our goal is to further increase the ratio of internal trainings and self-developed curricula. In 2014, we drew up the organisation's Training Catalogue.

Performance evaluation

The fine-tuning of the performance assessment system (which was renewed in 2013) was conducted in several phases last year. One of the outstanding innovations of this was the fact that we linked the results of performance assessment (including the areas of employees to be developed) with the training system. We pay attention to our employees: on average, 4 performance assessments per year are prepared for each employee. Frequent assessment and regular feedback increases the quality of task performance, and thereby contributes to quality-controlled operation.

Career model

The auditor career model supports performance-oriented operation. The basic objective of the model is to ensure, as part of long-term planning, the succession of associates in key (management and expert) positions who perform their work with high professional quality under motivating conditions. The system must provide SAO associates predictable career and advancement opportunities and promote identification with organisational objectives. The career model is framed by the provision of equal opportunities, transparent resource management and performance assessment.

2.6. Management youth training system and trainee programme

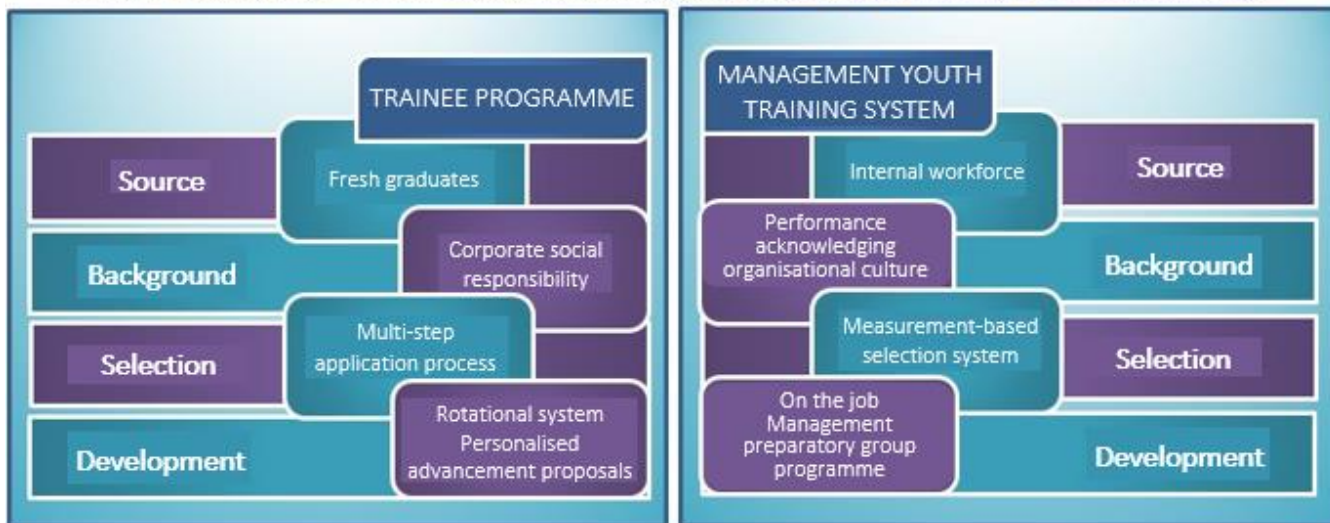
The SAO's strategy sets out that in the interest of enforcing the principles of corporate social responsibility and equal opportunities, the organisation operates a trainee programme. The trainee programme launched in 2011 developed constantly until it was integrated fully into the SAO career model. As such it became part of the youth training system. In 2014, close to 20% of trainee auditors became auditors. As part of the establishment of an organisational culture recognising performance, the SAO also operates a management succession system.

Trainee programme

In the spirit of corporate social responsibility, the trainee programme launched in 2011 was refined even further last year. Our system, which supports fresh graduates in gaining work experience, already became a part of the system ensuring continuous supply of workforce at an earlier point in time. Accordingly, our trainee colleagues who performed well in our multi-step application process in 2014 today work as auditors at our organisation. In order for our trainees to be truly able to stand their ground as auditors, we needed to reinforce the rotational system supporting practical experiences. Today, in the various selection phases we formulate personalised development recommendations and in the preparation periods, we monitor trainee tasks, enforcing the recommendations formulated in the resource allocation system.

Chart 60

FRAMEWORKS OF THE MANAGEMENT SUCCESSION AND TRAINEE PROGRAMMES



Management youth training system

The SAO has also renewed its management succession activity, as a result of which the current system is able to ensure the continuous and appropriate-quality performance of management tasks. The system of management youth training and the trainee programme is shown in Chart 60. Project-based task performance sets increased management requirements, and as such adaptation to these requirements is a key element of selection. We see our internal workforce as the primary succession base for management positions. This opened up possibilities of internal advancement, ensuring chances of promotion for everyone, and this in turn strengthens organisational culture that recognises performance and reinforces commitment. Selection is based on assessment, which filters applicants on the triple criteria of personal undertaking, voluntariness and suitability. The system of preparation also plays an important role in management succession, which system also includes the aspects of gradually increasing requirements and gradually increasing responsibility. Following selection, the various functional units of the organisation may charge the members of the management succession team with tasks (with on the job development), and these increase their professional know-how, their organisational knowledge and information regarding SAO procedures. In addition to individual-level development, we also organised a management preparation programme which supports group development.

2.7. The effectiveness of financial management

In line with the practice of previous years, during the financial management of the SAO ensuring sustainable development and the cost-efficient use of resources remained a priority task in 2014 as well. In accordance with its strategy, the SAO enforces the fundamental values of economy, efficiency, effectiveness and sustainability in its operation.

Reasonable and economic management supported by auditing

The financial management of the SAO was audited by an independent auditor selected and appointed by the Speaker of the National Assembly in a public procurement procedure. The audit determined that the SAO budget heading managed its financial resources reasonably and cost-efficiently, within the limits prescribed by the Act on the Budget, in consideration of the range of appropriations and in compliance with regulations and internal policies.

Measures demonstrating the effectiveness of organisational operation

In December 2011, the SAO launched a series of measures aimed at a more aware and more efficient use of resources. As a result thereof, multiple efficiency improvement measures have been implemented over the past few years, such as the winding up of the Research Institute of the SAO, replacing the library of the SAO that had operated under detrimental technical and economic circumstances with a training and information point, rationalising the placements of the employees who work in Budapest, and increasing the ratio of auditors participating in audits within the existing headcount. The introduction of the 2014 efficiency, savings and economy project brought additional organisational development in the Economic Directorate of the SAO. The goal of the project was to increase the number business days available for auditing, the optimisation of work processes, and the use of savings accumulated for investment purposes. The operating processes of the Economic Directorate were reviewed and substantial reserves have been detected as a result:

- ✓ Thanks to our decisions aiming at the improvement of efficiency and cost cutting, working conditions have improved and we have managed to reduce our rented office space in Budapest by 539 m².
- ✓ By closing our stock storages and processing 1,156 accounting records, we reduced the administrative burdens on the Economic Directorate.
- ✓ Having regard to the principle of reducing administrative burdens and bureaucracy we simplified our cafeteria allowance system and decreased the frequency of related payments. As a result of the simplifications, payroll element numbers have been halved, and the modification of the frequency of payments resulted in 91% working hour savings in the job role involved in the performance of the task.
- ✓ In terms of our procurements, we strove to minimise the transportation costs arising from supplying business premises in the countryside through the repeated review of our contracts, and by identifying new procurement criteria.
- ✓ As an adage to the process optimisation conducted at the Economic Directorate of the SAO, another one of the objectives we identified was the more optimal use of human resources; as a result, by redistributing tasks we created 25 job roles from the previous 34 job roles, and we have also significantly reduced the scope of the tasks performed in an auditor relationship and thereby increased the number of work days available for auditing.

The rationalisation of the operating processes of the Economic Directorate that started in 2014 has continued together with an effort to improve efficiency, the results of which are expected to materialise in 2015. The sustainability of the results is ensured through the process-integrated audit carried out by the efficiency officer. In 2014, due to the shortness of the time available, we could not use the savings we managed to attain until the end of the year as a result of the rationalisation of our operating processes and the organisational changes implemented for investment purposes, therefore, the remaining uncommitted residual amount of HUF 276.8 million was offered to the central budget.

THE 2014 FINANCIAL MANAGEMENT OF THE SAO

The SAO represents a separate chapter in the structure of the central budget, and shall compile its own report, which shall be submitted without any change by the Government to the National Assembly as part of the bill on the central budget and its implementation.

1. Budgetary statement of the SAO

According to the auditor's opinion, the 2014 annual financial statements of the budget heading for the SAO provide a true and fair view of the assets and financial standing as well as the results of the financial management of the end of the above year.

1.1. Data of budgetary appropriations

In the Act on the Budget, the National Assembly allocated HUF 8,089.7 million for the discharge of the SAO's duties last year, of which HUF 8,069.7 million was covered from budgetary subsidies and HUF 20.0 million from the SAO's own revenues.

Budgetary appropriations and their fulfilment

In complying with the provisions of Government Decree No. 368/2011.(XII.31.), as a result of adjustments realised during the subject year under various titles and in an amount of HUF 635.8 million, the amount of original expenditure and revenue appropriations increased to HUF 8,725.5 million, according to the following:

- ✓ Institutional level chapter reserves were accumulated in an amount of HUF 453.5 million in connection with the residue left over from the 2013 fiscal year, whereas the chapter reserves accumulated pursuant to Article 7(3) of Act XCII of 2013 under the chapter-managed appropriation came to HUF 153.2 million,
- ✓ HUF 1.5 million in wage compensation paid pursuant to Government Decree 495/2013. (XII. 29.),
- ✓ HUF 19.2 million in reimbursement of employer costs related to the 'prime years' programme pursuant to Act CXXII of 2004,
- ✓ HUF 3.8 million from the recovery of employer housing loans,
- ✓ HUF 4.6 million in surplus generated on our own operating income.

The 2014 expenditure appropriations of the SAO chapter were fulfilled up to HUF 7,697.1 million, whereas the amended appropriations were fulfilled at a rate of 88.2%. 83.5% of the appropriations used comprised the combined amount of personal allowances and contributions payable by employers (HUF 6,422.2 million), with 9.6% spent on non-personnel expenses, 2.4% on other operating expenditures, and 4.5% on investment (capital) expenditures within total expenditures. Overall, the expenditure appropriations available provided the operational conditions required by the SAO for the uninterrupted discharge of its basic duty. In 2014, at the chapter level, the amount of the residue generated as the difference between revenue and expenditure came to

HUF 1,025.3 million, which amount was generated in its entirety by the economic entity of the SAO. The amount of committed residue from the overall residual amount came to HUF 748.5 million, as a result of the carry-over of certain tasks and performance to 2015. **During the year**, key budget appropriations and their performance were as follows:

Name of priority appropriation	Original appropriation	Amended appropriation	Performance	Performance / amended appropriation
Personal allowances	5 281.3	5 211.0	5 039.2	96.70
Contributions payable by employers and social contribution tax	1 444.6	1 433.6	1 383.0	96.47
Non-personnel expenses	1 146.9	1 119.4	741.4	66.23
Other operating expenditures	2.0	190.8	186.3	97.64
Renovations	36.0	42.1	37.3	88.60
Investment projects	178.9	726.5	308.5	42.46
Other non-operating expenditures	0.0	2.1	1.4	66.67
Total expenditures	8,089.7	8,725.5	7,697.1	88.21
Operating revenues	17.0	21.7	21.6	99.54
Capital income	3.0	3.0	0.0	0.00
Accumulation-purpose assumed funds	0.0	3.7	3.7	100.00
Financing revenues	8,069.7	8,090.4	8,090.4	100.00
Use of residue	0.0	606.7	606.7	100.00
Total revenues	8,089.7	8,725.5	8,722.4	99.96

Of this amount HUF 247.5 million was generated as a result of economic management, while the amount of the residue of the 2013 committed, but lower than expected commitment came to HUF 29.3 million. The book (net) value of the institution's fixed assets that are part of national assets at the end of 2014 was HUF 3,354.7 million. The book value of fixed assets that are part of national assets (formerly called: fixed assets) dropped by HUF 47.8 million. This drop is due to the change in stock of intangible and tangible assets, which change is related to the amendments affecting accounting settlements. In 2014, the institution realised a total expenditure of HUF 345.8 million on investments and renovations, and the residual amount charged with commitments under this title is HUF 393.7 million. The procurement of security software and renewal of licenses for such software enabled us to ensure the security (integrity and confidentiality) of data generated and stored at the SAO. The institution spent a total of HUF 120.5 million on software development, the majority of which concerned the renewal of the MS Office 2013 licence, the Lotus Domino/ Notes licences and the disaster tolerant system. As part of the renewal of equipment and machinery, 2014 saw the setting up of a turnstile entry system and video-recording security camera system, as well as the replacement mobile computers (notebooks), the replacement of the server unit, the procurement of data storage devices and document scanners, as well as the change of RSA keys that ensure remote working conditions.

ANNEXES

■ ANNEX 1: THEMATIC AUDITS, AND THE LEGALITY AUDIT OF PARTIES AND PARTY FOUNDATIONS

1. Audit of the financial management of minority local governments (105 audits)

- 14009 [Hőgyész - Roma](#)
- 14010 [Hőgyész - German](#)
- 14011 [Jánossomorja - German](#)
- 14012 [Jánossomorja - Roma](#)
- 14013 [Mátraverebély - Roma](#)
- 14026 [Mezőkeresztes - Roma](#)
- 14027 [Cikó - German](#)
- 14028 [Sajóbábony - Slovakian](#)
- 14029 [Tét - Roma](#)
- 14030 [Tomba - Croatian](#)
- 14031 [Bélapátfalva - Roma](#)
- 14054 [Tiszabura - Roma](#)
- 14101 [Terézváros - Bulgarian](#)
- 14102 [Terézváros - Greek](#)
- 14103 [Terézváros - German](#)
- 14104 [Terézváros - Rusyn](#)
- 14105 [Terézváros - Polish](#)
- 14106 [Terézváros - Armenian](#)
- 14107 [15th District - Bulgarian](#)
- 14108 [15th District - Roma](#)
- 14109 [15th District - Croatian](#)
- 14110 [15th District - Greek](#)
- 14111 [15th District - German](#)
- 14112 [15th District - Armenian](#)
- 14113 [Gyöngyös - Roma](#)
- 14114 [Gyöngyös - Rusyn](#)
- 14115 [Létavértes - Roma](#)
- 14116 [Létavértes - Romanian](#)
- 14131 [Jászjákóhalma - Roma](#)
- 14132 [Erzsébetváros - Bulgarian](#)
- 14133 [Erzsébetváros - Roma](#)
- 14134 [Erzsébetváros - Greek](#)
- 14135 [Erzsébetváros - Croatian](#)
- 14136 [Erzsébetváros - Polish](#)
- 14137 [Erzsébetváros - Armenian](#)
- 14138 [Encs - Roma](#)
- 14139 [Füzesabony - Roma](#)
- 14140 [Gyömrő - Roma](#)
- 14141 [Gyömrő - Rusyn](#)
- 14142 [Herend - German](#)
- 14143 [Újfehértó - Roma](#)
- 14144 [Zsámbék - German](#)
- 14145 [16th District - Bulgarian](#)
- 14146 [16th District - Greek](#)
- 14148 [Kunmadaras - Roma](#)

- 14149 [22nd District - German](#)
- 14150 [Ferencváros - Bulgarian](#)
- 14151 [Ferencváros - Roma](#)
- 14152 [Ferencváros - Serbian](#)
- 14153 [Erzsébetváros - Romanian](#)
- 14154 [Erzsébetváros - Rusyn](#)
- 14155 [Erzsébetváros - Serbian](#)
- 14156 [Terézváros - Roma](#)
- 14157 [Terézváros - Serbian](#)
- 14158 [Terézváros - Slovakian](#)
- 14159 [15th District - Romanian](#)
- 14160 [15th District - Serbian](#)
- 14161 [15th District - Ukrainian](#)
- 14162 [13th District - Armenian](#)
- 14163 [13th District - Roma](#)
- 14164 [13th District - Bulgarian](#)
- 14165 [13th District - Greek](#)
- 14166 [13th District - Rusyn](#)
- 14167 [22nd District - Bulgarian](#)
- 14168 [22nd District - Greek](#)
- 14169 [22nd District - Croatian](#)
- 14170 [18th District - Bulgarian](#)
- 14171 [18th District - Polish](#)
- 14172 [18th District - Armenian](#)
- 14173 [22nd District - Roma](#)
- 14175 [18th District - Greek](#)
- 14176 [18th District - Croatian](#)
- 14177 [18th District - Roma](#)
- 14178 [16th District - Polish](#)
- 14179 [16th District - German](#)
- 14180 [16th District - Armenian](#)
- 14181 [16th District - Roma](#)
- 14182 [18th District - Serbian](#)
- 14183 [18th District - German](#)
- 14184 [18th District - Rusyn](#)
- 14185 [18th District - Slovenian](#)
- 14186 [13th District - Croatian](#)
- 14187 [13th District - Polish](#)
- 14188 [13th District - German](#)
- 14189 [13th District - Serbian](#)
- 14190 [16th District - Romanian](#)
- 14191 [16th District - Rusyn](#)
- 14192 [16th District - Slovakian](#)
- 14193 [16th District - Ukrainian](#)
- 14202 [13th District - Romanian](#)
- 14203 [13th District - Slovakian](#)
- 14208 [Ferencváros - Greek](#)
- 14209 [Ferencváros - German](#)
- 14210 [Ferencváros - Armenian](#)
- 14211 [Ferencváros - Romanian](#)
- 14212 [Ferencváros - Rusyn](#)
- 14213 [Ferencváros - Slovakian](#)

- 14214 [Ferencváros - Ukrainian](#)
- 14223 [Mátraterenye - Roma](#)
- 14225 [Lepsény - Roma](#)
- 14226 [Kazincbarcika - Roma](#)
- 14227 [Dunaharaszti - Polish](#)
- 14228 [Békés - Roma](#)
- 14229 [Abaújszántó - Roma](#)
- 14230 [Óbuda-Békásmegyer - Roma](#)

2. Audit of the establishment of the internal control system of local governments, and the audit of the operation of various control activities and internal auditing (40 audits)

- 14014 [Mezőhegyes](#)
- 14040 [Csemő](#)
- 14041 [Szabadegyháza](#)
- 14042 [Szabadbattyán](#)
- 14057 [Egercsehi](#)
- 14063 [Mezőszilas](#)
- 14064 [Koroncó](#)
- 14065 [Gyöngyössolymos](#)
- 14072 [Abasár](#)
- 14073 [Fertőszéplak](#)
- 14077 [Pázmánd](#)
- 14078 [Csetény](#)
- 14079 [Füle](#)
- 14084 [Bodrogkisfalud](#)
- 14085 [Bükkszék](#)
- 14086 [Dejtár](#)
- 14087 [Egerfarmos](#)
- 14088 [Gesztely](#)
- 14089 [Ibrány](#)
- 14090 [Nógrádkövesd](#)
- 14091 [Borzavár](#)
- 14092 [Istvándi](#)
- 14093 [Karád](#)
- 14094 [Marcaltó](#)
- 14095 [Pétfürdő](#)
- 14096 [Vácrátót](#)
- 14117 [Csapi](#)
- 14118 [Esztergom](#)
- 14119 [Gelse](#)
- 14120 [Juta](#)
- 14121 [Kunszentmárton](#)
- 14122 [Tolnanémedi](#)
- 14123 [Vonyarcvashegy](#)
- 14124 [Nyírbátor](#)
- 14125 [Nyírmeggyes](#)
- 14126 [Ricse](#)
- 14127 [Taktabái](#)
- 14128 [Tiszaújváros](#)
- 14215 [Cserépváralja](#)
- 14216 [Romhány](#)

3. Audit of the situation and regularity of the financial management of local governments (11 audits)

- 14020 [Gyömrő](#)
- 14021 [Gyöngyös](#)
- 14022 [Létavértes](#)
- 14023 [Füzesabony](#)
- 14024 [Újfehértó](#)
- 14070 [Encs](#)
- 14071 [Csákvár](#)
- 14075 [Herend](#)
- 14076 [Zsámbék](#)
- 14100 [Jászjákóhalma](#)
- 14195 [Kunmadaras](#)

4. Audit of the performance of public function by companies majority-owned by local governments (17 theatres)

- 14033 [Bábszínház \(Puppet Theatre\)](#)
- 14034 [Katona József Theatre](#)
- 14035 [Kolibri Theatre](#)
- 14036 [Örkény István Theatre](#)
- 14037 [Radnóti Miklós Theatre](#)
- 14038 [Új Theatre](#)
- 14043 [Trafó Kortárs Művészetek Háza \(Trafó - House of Contemporary Arts\)](#)
- 14044 [Madách Theatre](#)
- 14045 [Thália Theatre](#)
- 14046 [Centrál Theatre](#)
- 14047 [József Attila Theatre](#)
- 14048 [Vígyszínház](#)
- 14056 [Bárka Theatre](#)
- 14066 [Csiky Gergely Theatre](#)
- 14067 [Miskolc Opera Festival](#)
- 14068 [Várszínház és Kultúrmozgó Esztergom](#)
- 14069 [Weöres Sándor Theatre](#)

5. Audits of the activities aimed at the preservation and increase of asset value by economic entities owned (partly owned) by the state (5 water utility companies)

- 14049 [Duna Menti Regionális Vízmű Zrt \(Danube Regional Waterworks\)](#)
- 14050 [Tiszamenti Regionális Vízművek Zrt \(Tisza Regional Waterworks\)](#)
- 14051 [Északmagyarországi Regionális Vízművek Zrt \(North Hungarian Regional Waterworks Ltd.\)](#)
- 14052 [Dunántúli Regionális Vízmű Zrt \(Transdanubian Regional Waterworks Corporation\)](#)
- 14053 [Északdunántúli Vízmű Zrt \(North Transdanubian Waterworks Co. Ltd.\)](#)

6. Audit of the regularity of the asset management of local governments (19 local governments)

- 14058 [Balatonfenyves](#)
- 14059 [Baracs](#)
- 14060 [Borgáta](#)
- 14061 [Cikó](#)
- 14062 [Kőröstétlen](#)
- 14080 [Budafok-Tétény](#)

- 14081 [Terézváros](#)
- 14082 [Erzsébetváros](#)
- 14083 [15th District](#)
- 14099 [16th District](#)
- 14129 [13th District](#)
- 14147 [9th District](#)
- 14174 [18th District](#)
- 14206 [Tiszabura](#)
- 14217 [4th District](#)
- 14219 [2nd District](#)
- 14220 [1st District](#)
- 14231 [3rd District](#)
- 14232 [17th District](#)

7. Audit of the financial management of higher education institutions (9 institutions)

- 14196 [College of Szolnok](#)
- 14197 [University of Pannonia](#)
- 14198 [Károly Róbert University College](#)
- 14199 [Hungarian University of Fine Arts](#)
- 14200 [University of Miskolc](#)
- 14201 [Széchenyi István University](#)
- 14204 [Eszterházy Károly University of Applied Sciences](#)
- 14205 [Hungarian Dance Academy](#)
- ~~14218~~ [Budapest University of Technology and Economics](#)

8. Legality audit of the financial management of parties (3 parties)

- 14003 [Hungarian Socialist Party](#)
- 14007 [Jobbik Magyarországért Mozgalom \(Movement for a Better Hungary\)](#)
- 14008 [Lehet Más a Politika \(Politics Can be Different\)](#)

9. Legality audit of the financial management of party foundations (3 foundations)

- 14004 [Gyapodó Magyarországért Alapítvány \(Foundation for a Prospering Hungary\)](#)
- 14005 [Táncsics Mihály Foundation](#)
- 14006 [Ecopolis Foundation](#)

■ ANNEX 2: AUDITOR'S REPORT

Independent auditor's report

INDEPENDENT AUDITOR'S REPORT

**To the management of the SAO
Report on the 2014 annual budgetary statement**

We have audited the accompanying 2014 annual budgetary statements of the budget heading for the SAO (the economic entity of the SAO and its chapter-managed appropriation) which comprise the following statements:

- **the 2014 budget report, according to which the realised budgetary expenditure chapter is HUF 7,697,179 thousand, and the realised budgetary revenue is HUF 8,722,480 thousand;**
- **residue statement, according to which total residue is HUF 1,025,301 thousand;**
- **data reporting; as well as the balance sheet statement prepared for 31 December 2014, where the equal amount of assets and liabilities is HUF 4,396,389 thousand; a profit and loss statement for the year then ended where the profit and loss according to the balance sheet is HUF -110,180 thousand, furthermore, statements per specialised task on costs and recovered costs, and a supplementary annex.**

Management's responsibility for the annual budgetary statement

Management's responsibility for the annual budgetary statement

Management is responsible for the preparation and fair presentation of the annual budgetary statement in accordance with provisions of Act C of 2000 on Accounting and Government Decree No. 4/2013 (I. 11.) on the Accounting of Public Finances, and for internal controls relevant to the preparation and fair presentation of annual budgetary statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on the annual budgetary statement based on our audit. We conducted our audits in accordance with Hungarian National Auditing Standards. Those standards require that we comply with ethical requirements and that we plan and perform the audit to obtain reasonable assurance about whether the annual budgetary statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual budgetary statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the annual budgetary statement, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the institution's preparation and fair presentation of the annual budgetary statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the institution's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the annual budgetary statement.

Independent auditor's report

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

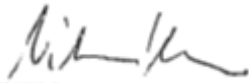
Opinion:

During our audit, we have audited the 2014 annual budgetary statement of the SAO, along with all sections and items (budget report, residue statement, balance sheet, profit and loss statement, statement on costs and recovered cost, supplementary annex), and their accounting and book-keeping confirmation.

We conducted our audits in accordance with Hungarian National Auditing Standards, and pursuant to legal regulations which set out tasks for the auditor in respect of the data contained in the statement, and based on this we have gained sufficient and appropriate assurance that the annual budgetary statement has been prepared in accordance with the provisions of Act C of 2000 on Accounting, Government Decree No. 4/2013 (I. 11.) on the Accounting of Public Finances and other legal regulations and pursuant to general accounting principles.

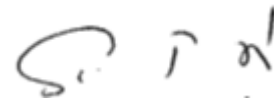
In our opinion, the annual budgetary statement provides a true and fair presentation of the execution of the 2014 budget of the SAO as well as on its financial position as at 31 December 2014 and the results of its financial management for the year then ended.

Budapest, 25 March 2015



András Villányi
Managing Director

Dialog Plusz Audit Könyvvizsgáló Kft.
1137 Bp., Katona József u. 14.
MKVK registration number: 000088



Ágota Farkas Gáspárné
Audit Manager

chartered accountant
MKVK (Chamber of Hungarian
Auditors) membership no.: 002289

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