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SZÁMVEVŐSZÉK

# Summary Report

for the National Assembly  
on the Professional Activity and  
Operation of the State Audit Office  
of Hungary in 2015

April 2016

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*László Domokos*  
László Domokos  
President



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# FOREWORD BY THE PRESIDENT

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Dear Reader,

2015 was the culmination of utilisation in the life of the State Audit Office. With the wide-ranging dissemination of audit findings, analytical conclusions and the good practices acquired, the State Audit Office lived up to its mission statement: it promoted the transparency of public finances and contributed to the strengthening of the international principles of ‘a well-managed state’ in Hungary through professional and value-creating audits.



Clear and concise communication is indispensable for the practical utilisation of our work. With that in mind, our continuously updated website provides up-to-date information about the results of our audits and, in support of the transparency of our activity and the publicity of our work, we inform the general public, users, audited entities and decision-makers about our professional work.

Efforts continued in 2015 to institutionalise the fundamental principles of the utilisation of audit work and to integrate them into the daily work flow. We placed great emphasis on institutional transparency and on the continuous dissemination of information to the general public; moreover, we stepped up our efforts to exercise our statutory right of initiating proceedings. Our feedback meant proposals and interpretations for decision-makers and audited entities.

In the interest of comprehensibility and utility, continuing the work commenced in recent years and as a tangible result of the methodological renewal of audits and the enhancement of the quality assurance system, we renewed the format and structure of SAO reports in 2015.

Parallel to its organisational renewal, the State Audit Office also worked continuously on enhancing its methodologies, with the rethinking of quality control processes being an organic part of these efforts. The State Audit Office of Hungary firmly believes that instead of quality-controlled products, quality-driven processes should be put in place, which guarantee the quality of outputs in themselves.

By developing its new, quality-driven operations and by completing its methodological renewal, the SAO has become a supreme audit institution which, as a professionally indispensable constitutional organisation enjoying the trust of Hungarian citizens, can support the operation of a well-managed state.

In keeping with the provisions of the SAO Act and adhering to the concept of the well-managed state, in 2015 – as in previous years – our organisation performed a public duty as part of the democratic state in facilitating the responsible financial management of public funds, as well as of state and local government assets. Our experience-based proposals and findings have been utilised by the National Assembly, various committees and other audit institutions in legislation, in their own work and in their focal operational areas.

Our risk analysis activity allowed us to perform audits in the areas where we were able to create the highest value added for society. We continued to reduce the number of ‘grey areas’, covering numerous organisations and local governments previously unaudited by the SAO.

In 2015, we published 221 reports, 26 studies and analyses, and – with a view to facilitating high-quality legislation – 12 summaries for Members of Parliament; held four “good practices” seminars and shared our vast array of experiences at dozens of external conferences and other events.

During the course of 2015, we audited numerous public enterprises and business associations owned by local governments. In this context, we audited municipality-run district heating and waste management companies and state-owned forestry companies; moreover, we completed the system-level audit of public higher education institutions.

Our audits conducted in areas crucial for the future of the country – such as efficient tax collection, smoothly functioning financial supervision and the absorption of EU funds – have been successfully utilised as well. The audits of the SAO contribute to the operational and organisational renewal of the National Tax and Customs Administration (NAV) and to the improvement of the efficiency of tax collection and debt management. By auditing the National Bank of Hungary (MNB) and the former Hungarian Financial Supervisory Authority (HFSA), we directed attention to the previous deficiencies detected in the supervisory activity of the HFSA, which fostered the strengthening of the control mechanisms of the MNB. The systems audit performed at the National Development Agency (NDA) and the summary of our audit findings reconfirmed the need for reforming the Hungarian institutional system in charge of the management of EU grants.

Based on the audit experiences of public enterprises and business associations owned by local governments, the SAO put forward recommendations regarding the change of approach and management reform advised to the entities concerned. The government has expressly stated that the renewal of the management of public companies is essential.

In its resolution issued in July 2015, the National Assembly acknowledged our achievements, and at the same time it instructed the SAO to broaden its advisory activity regarding management systems and to support the training of ethical managers in public finance.

In this spirit, in our statutory advisory capacity we formulated a number of recommendations regarding the renewal of public sector management, which have been utilised in the form of a government decision. They contributed to establishing the conditions of dual training and further training; a university training system has been developed for researching and teaching the measurement of public sector performance in the coming years. In the spirit of corporate social responsibility – in accordance with the 2014 resolution of the National Assembly – in 2015 the State Audit Office continued to act as an initiator in the national cooperation aiming to enhance the financial literacy of the Hungarian population.

The SAO assessed the statutory amendments submitted on two occasions during the year for the 2015 budget from the aspect of public deficit and public debt developments; it prepared analyses on the budgetary processes of 2015 Q1 and Q2, on the macroeconomic correlations of the 2014 budgetary processes and on the budget bill for 2016.

The analyses of the SAO contributed to the fact that all of the decisions of the Fiscal Council (FC) were based on well-founded information and passed by consensus in 2015, and that the Government and the National Assembly took several Council recommendations into consideration in their budget-related decisions. The purpose of the SAO's support, therefore, was to enable the National Assembly to adopt a well-founded, substantiated budget that is capable of managing risks and facilitates the reduction of debt, and to ensure that these criteria are also enforced on the occasion of mid-year budget amendments.

In the interest of stabilising the budget, improving the competitiveness of the Hungarian economy was given greater priority in the work of the Fiscal Council. With a view to supporting professional work, the SAO made available to the FC several analyses on a number of factors and areas critical to competitiveness (investment, energy sector, scientific research).

The regularity of the planning, use and settlement of election campaign funds was another priority of the SAO's audit work. The SAO provided information to the National Assembly regarding the use of funds allocated from the central budget.

In 2015, the SAO made further progress in the fight against corruption and in the promotion of an integrity-based organisational culture. For the fifth time, it conducted an integrity survey mapping out the corruption risks of the Hungarian public sector; in 2015, the number of participating organisations rose by approximately one thousand compared to the participation record set in the previous year.

As in previous years, the SAO sought to determine whether public institutions applied more anti-corruption methods than before. Public institutions have been participating in the programme for five years, and the results show a definite improvement.

The SAO assigns key priority to anti-corruption measures not only in its audits but also in its own operation: it practices the integrity approach and as an exemplary institution, the SAO itself participated in the integrity survey.

In 2015, the State Audit Office continued its active involvement in the international cooperation of state audit offices; we shared and utilised the 'best practices' made known. We were responsible for the leadership of the EUROSAI Capacity Building Goal Team and also participated in planning and organising a number of cooperative audits, while we were also subject to evaluations by external organisations and peer reviews in the framework of international cooperation.

We remain committed to boosting the transparency and effectiveness of the utilisation and management of public funds with our analyses, studies and continuous dissemination of knowledge, while fostering the more efficient functioning of the institutions and systems providing public services. Our mission is to set positive changes in motion through the utilisation of our audits and analyses and to support the targeting and maintenance of these changes to benefit the lives of Hungarian citizens.

We continue to believe that a well-functioning, transparency-oriented audit mechanism and the vigorous performance of state audit office tasks that supports good legislation and provides a guarantee not only in name but also in its function are essential parts of the implementation of a democratic state.

**László Domokos**  
*President*  
*State Audit Office of Hungary*



# THE PAST YEAR OF THE SAO

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*2015 was a year of methodological renewal in the life of the State Audit Office of Hungary. The renewal of the international standards on auditing also played a part in the revision of the SAO's methodology. Work continued on the institutionalisation of the principles of audit work. The requirement of high quality has been integrated into the strategy, culture, operational procedures and activities of the organisation.*

## **The strategy of the SAO and its organisational development achievements**

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The main mission of our organisational development activity of recent years has been to make certain that the changes would contribute to improving the efficiency and effectiveness of the organisation so that the well-functioning processes of the internal environment can be reinforced, while less adequately operating systems can be enhanced to ensure the most efficient execution of tasks. As a result of the implementation, the organisation's adaptation capability and its level of integration improved in 2015; its operation became more transparent and predictable and as a culmination of our strategy, the revised organisational processes have become a part of everyday routine.

Parallel to the transformation of the processes, a new supporting infrastructure was needed, one that was capable of flexibly adjusting to changes and to internal requirements. For the implementation of the already developed, matrix organisation type to replace the traditional department-type classification and for the optimal use of resources, the SAO worked in a project-like framework; as a result, in 2015 we were able to implement a far more efficient organisational operation, which implemented in the new environment and consistently put into practice our approach.

"Continuous organisational renewal" is a fundamental value specified in the strategy of the SAO, and the internal control system and the governance of the SAO must also keep in step with this approach. Using this concept as a guiding principle, in conjunction with the organisational changes, we update and develop the control environment, the risk management system, control activities, the ITC system and the monitoring system on a continuous basis.

It is stated in the SAO's strategy that it facilitates the creation of the integrity-based, transparent and accountable utilisation of public funds; it is a committed supporter of quality-oriented operation and it strives to prevent errors and deficiencies and to develop an organisational structure that is aligned to the tasks to be performed.

We can state that as a result of the SAO's work, the concept of integrity has been integrated into the audit methodology of the State Audit Office; it is also present in the thinking of public institutions, and at the same time, it has a growing impact on the organisational culture of the public sector.

In 2015, efforts continued to institutionalise and integrate into the daily work flow the fundamental principles of the utilisation of audit work, bearing in mind the need to maintain and improve efficiency.

In conjunction with the construction of the organisational framework, the requirement of high quality has been integrated into the strategy, culture, operational procedures and activities of the organisation. Emphasis shifted from quality-driven products to objective quality-driven processes and operation that ensure proficient execution and guarantee the quality of outputs.

Affecting the organisation as a whole, the operational and methodological renewal that the SAO is entitled to determine and execute as part of the independence of supreme audit institutions was an integral part of the organisational renewal and of the transition to quality-driven operation.

## The year of methodological renewal

One of the cornerstones of the SAO's independence is that it works out the professional guidelines of audits and its methods on its own, endorsing the international standards of INTOSAI (International Organisation of Supreme Audit Institutions). The revision of the international audit standards adopted by INTOSAI at the end of 2013 also provided an opportunity for the SAO to update its audit methodology for the three main audit types, compliance, financial and performance audits.

The renewal of the audit methodology of the SAO commenced with the introduction of the methodological documents entitled 'Fundamental Principles of SAO Audits', 'Fundamental Principles of Compliance Auditing' and 'Fundamental Principles of Performance Auditing'. The 'Fundamental Principles of SAO Audits' address both the general public (intended users of public funds, taxpayers) and auditors, thus supporting the transparency of the SAO's activity.

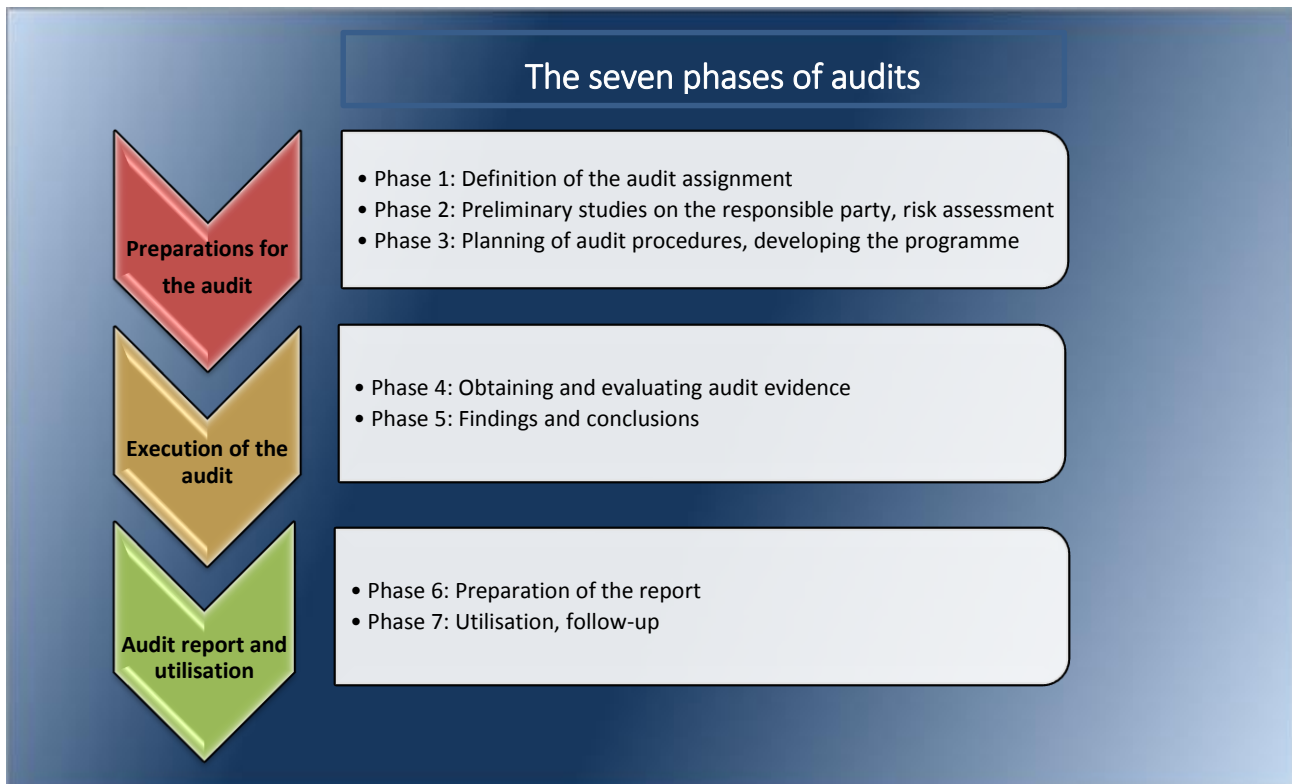
In the context of this renewal, we are making preparations for the introduction of evaluation-type audits, which, in addition to assessing an institution's operation and the effectiveness and efficiency of its investment activity and projects, will also evaluate its social utility, utilisation and expediency.

### The seven phases of audits

The whole audit process, from audit planning through the implementation thereof, to the formulation of findings and recommendations and the utilisation thereof, is aimed at supporting the regular, effective, efficient, economic, accountable and transparent utilisation of public funds, the development of the public finance system and at ensuring that national assets are as safe as possible.

During the definition of audit topics and the selection of audit sites related to each audit topic, the SAO strives for the effective, efficient and economic utilisation of its resources; therefore, planning is preceded by the continuous processing of the information necessary for the selection of topics and analysis.

Figure 1



## New methodology for the Final Accounts

In 2015, the State Audit Office of Hungary carried out the audit of the execution of the 2014 central budget with a renewed methodology. The renewal of the methodology was necessitated essentially by two reasons. On the one hand, as of 1 January 2014, new financial and budget accounting rules came into force, introducing the system of accrual-based accounting. On the other hand, the renewal of the international standards on auditing also played a part in the revision of the SAO's methodology. In October 2013, the INTOSAI adopted new fundamental auditing principles, which also entailed the renewal of audit types, such as the introduction of compliance audits. Accordingly, the SAO revised its professional rules of auditing. It adopted and issued the fundamental principles of compliance audits. This also entailed the renewal of the principles and procedures applicable to its audits of the final accounts.

It was defined among the strategic goals of the SAO that, for more efficient and effective final accounts audits, it should develop an audit model that is different in approach, contents and procedures from the one used before and that it should continue to support the National Assembly in its work and in making substantiated decisions. The SAO's implementation of this strategic goal resulted in the renewal of the methodology for final accounts audits, which was published on the SAO's website in January 2015.

As a result of the new methodology, for the first time in 2015, the coverage of the final accounts audit reached 100% of the expenditures and revenues of the central subsystem.

The SAO formulated the methodology of final accounts audits with a view to being able to obtain a substantiated opinion during the audit procedures on the execution of the budget as a whole. The audit provides a comprehensive and objective view on the reliability of data included in the 2014 final accounts bill. The audit covers five main areas: centrally-managed appropriations, social security funds, extra-budgetary funds, chapter-managed appropriations and appropriations related to EU grants, and central budgetary institutions.

Figure 2



In auditing the final accounts, the SAO applies statistical methods, proceeds in accordance with their rules and it draws conclusions about the entire population based on the items audited. In statistical sampling, the SAO determined the materiality threshold at 2% of the total expenditures and total revenues of the central budget. The SAO also defined additional, specific materiality thresholds with respect to individual sub-segments at 2% of the performance data of the expenditure and revenue amounts of the given sub-segment.

In 2015, the SAO evaluated the regularity and compliance of financial management and the use of appropriations with the rules applicable to fiscal management by using the new methodology in all audit areas.

### **A new reporting format**

The process of methodological renewal reached a milestone in 2015 with the birth of its first novel product. The overhaul of the format of audit reports was based on the analysis of user requirements and international examples. To improve the clarity and focus of the audit reports, in 2015 the SAO commenced its transition to a new type of audit reports. To support the process, the structure and format of audit programmes have also been reformed. From the second half of the year, the new audit programmes were prepared in the new format; moreover, the programme of the eight thematic audits already in progress had been recast in accordance with the new format.

## **Facilitating the transparent and sound management of public finances**

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### **Strengthening the integrity approach**

It is the SAO's strategic objective to play a role in the fight against corruption and fraud, to participate in the identification and promotion of the efficient means of taking action against corruption risks and corruption and in formulating an integrity-based administrative culture. An important tool in this regard is the evaluation of the enforcement of the integrity-based approach in the context of the set-up and operation of an internal control system, which could be utilised in strengthening institutional integrity and internal controls and in reducing corruption risks. Another tool which may be of significant public interest is an annual, voluntary integrity survey, the results of which are published by the SAO in the form of studies.

For the fifth time, the SAO conducted an integrity survey mapping out the corruption risks of the Hungarian public sector; in 2015, the number of participating organisations rose by approximately one thousand compared to the participation record set in the previous year, with 2,557 organisations participating. The number of institutions undertaking long-term cooperation also increased; in 2015 their number exceeded 2,100. The SAO's objective for the future is to extend the integrity surveys to all areas where public funds and public assets are utilised. Consequently, in December 2015 it launched an integrity survey among business associations in majority state ownership and from the autumn of 2016, business associations in majority local government ownership will also be included in the survey.

### **Renewal of public sector management**

Audits conducted at the business associations in state or local government ownership have pointed out that inadequate management and insufficient ownership control can have severe consequences. The absence of forward-looking, systemic solutions to the deficiencies detected and the critical areas identified will sooner or later undermine the budget, and its negative implications will also be perceived by citizens. Therefore, there is a need to strengthen the internal control system of public finance, including internal audit and government level auditing, in order to improve the effective enforcement of the requirements pertaining to the operation of public sector management. The SAO – as the third line of defence – has called the government's attention to the risks, and the government announced that it would transform, relying on the SAO's audit experiences, the management system of state-owned companies.

It is a strategic goal of the SAO to promote, within the framework of its advisory activity, the definition of effectiveness criteria for the utilisation of public funds and for interventions in legislation and public policy, assigning to the objectives indicators suitable for performance measurement. In order to improve the expediency and effectiveness of public spending, on several occasions in 2015, the SAO presented its audit-based proposals regarding the renewal of public sector management. The key message of its proposals is the importance of clear objectives, effective financial management and continuous ownership control, which also necessitates the revision of the performance-based remuneration system.



### Reinforcement of the self-test system

In the context of its advisory and supporting role of public finance and based on its audit experiences, the SAO compiled self-tests, initially targeting ecclesiastical institutions, local governments and local minority self-governments, and in November 2014 it made them available on the SAO’s website. In 2015, the self-tests were expanded further to cover the set-up and operation of central budgetary institutions’ internal control system for the years 2013 and 2014.

The objective of the SAO is to use, over and beyond its audit activity, its self-test system to support the regular operation of organisations using public funds, and hence, public sector management also outside of business associations.

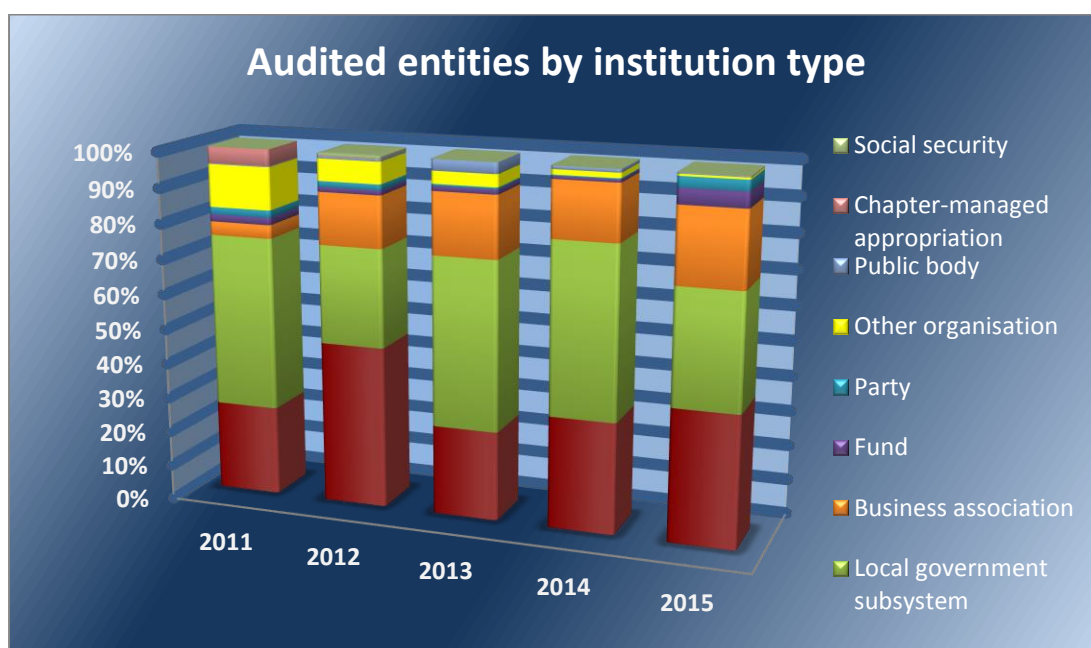
## Focal areas of 2015 audits

The State Audit Office of Hungary is the supreme financial and economic audit institution of the National Assembly, reporting to the National Assembly. Under the new SAO Act effective from 1 July 2011 as the first Cardinal Act, the SAO has wide-ranging powers in auditing. Based on this mandate, the SAO audits the institutions of the central subsystem and of the subsystem of local governments, the utilisation of funds originating from public finances, the management of national assets, compliance with the accounting rules of public finances, as well as the operation of the internal control system of public finances.

With that in mind, the SAO creates true value by conducting substantiated audits that are based on a systemic and holistic approach and are built on one another, also supporting summary evaluation. With its audits, the SAO fosters the transparency and regularity of public spending, and contributes to the creation of a well-managed state and good governance.

The objective of its audits is to facilitate the transparent, accountable and responsible financial management of public funds and state and local government assets. The topic selection, approach, findings and recommendations of the audits create added value benefiting, in a broader sense, society as a whole. Over the past 5 years, the SAO has consistently increased its coverage through the audits of the institutions of the central and local government subsystems. In the period of 2011–2015, it also assigned priority to the audits of business associations in state and local government majority ownership. Based on the distribution of the audited entities, more than two thirds of SAO audits affected the institutions of the central and local government subsystems. The distribution of the audited entities in the period of 2011–2015 is presented in Figure 3.

Figure 3



## **The SAO's audit plan**

In relation to the activity areas defined for the State Audit Office of Hungary, the SAO Act grants general powers for the selection of audit topics and for the execution of audits. In 2015, in addition to thematic audits (audits focusing on priority activities, performed on the basis of a uniform programme and thus providing the means for comparable audits), ad-hoc audits remained focal areas. In these cases, audited entities were selected on the basis of surveys performed by using the risk system of the SAO, and audits were performed according to ad-hoc audit programmes.

The SAO performed its audit activities in accordance with pre-approved audit plans published and forwarded to the National Assembly in semi-annual planning cycles. The SAO conducted its monitoring activity and developed its topic suggestions for the semi-annual rolling planning cycle by relying on its risk analysis system based on targeted data requests and data processing.

The SAO's audit activity was essentially determined by the statutory requirements prescribing the execution of certain tasks with a pre-defined frequency, which tied up substantial resources. Such audits included, primarily, the audit on the execution of the central budget of 2014 of Hungary and the formulation of an opinion on the Budget Bill of Hungary for 2016.

In line with its medium-term audit concept, the SAO conducted annual audits at the most prominent players in public sector revenues and expenditures, the National Tax and Customs Administration and the Hungarian State Treasury, given that the regular task performance of these organisations has an indirect effect on the public deficit, the prescribed level of which is specified in the Fundamental Law. The audits of 2015 focused on those activity areas of these organisations that proved to be, based on previous audit experiences and the risk signals processed, key risk factors and had been unaudited thus far.

The priority areas of SAO audits in 2015 included, once again, the property management and financial position of local governments and the set-up and operation of the sector's internal control systems. The objective of the audits was to ensure the utilisation of the findings and the recommendations in order to prevent the re-accumulation of the outstanding debt of local governments.

As a new element introduced at the request of the government, from the second half of 2015 local government audits also included an evaluation of local governments' compliance with the relevant regulations and internal policies in making their investment decisions and the execution and accounting of investments.

In the context of thematic local government audits, in the second half of 2015 we commenced the regularity auditing of the execution of local governments' debt clearance procedures, the findings of which may be utilised both in legislation and in more efficient local government debt management.

Business associations owned by the state or by local governments perform important public functions, and because of the explicit and implicit risks they pose to public debt they are of key significance. With that in mind, as in previous years, one of the SAO's key audit criteria in 2015 was the regularity of the provision of public services and of the financial and property management of these companies.

In 2015, the public transportation system of Budapest came into focus, in the context of which the SAO audited the regularity of the institutional transformation of the public transport system of Budapest in 2010.

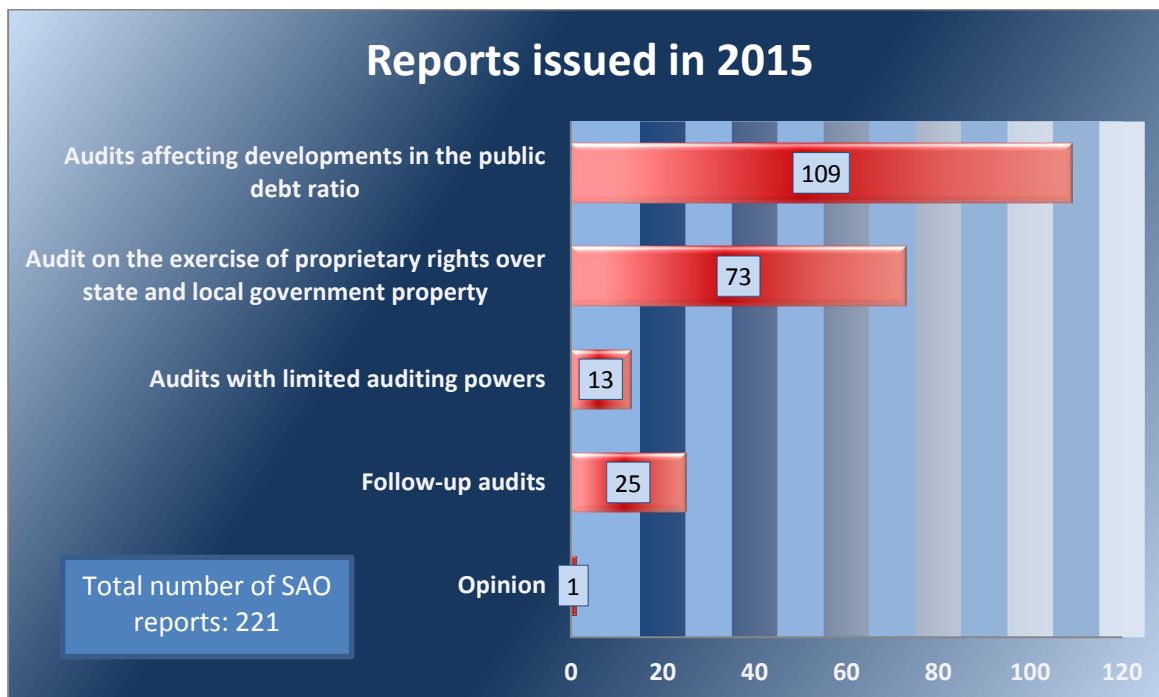
Since educational institutions' activity and the quality thereof have a long-term impact on a country's competitiveness, the compliant and cost-efficient operation of these institutions is extremely important. The thematic audits launched in 2013 in this area were concluded in 2015 with the audits of higher education institutions operated by churches.

Improving the public debt ratio as a constitutional objective is a central element of the SAO's medium-term audit concept. For the preparation of a reliable and realistic statement of national assets, the availability of the underlying, organisation-wide, reliable balance sheets and asset inventories is indispensable; consequently, this is a focal point in our audits.

The SAO assigns priority to social responsibility for future generations as enshrined in the Fundamental Law, and through its audits and by summarising its experiences it strives to contribute to achieving the national objectives with respect to sustainable development. To that end, in line with its medium-term audit concept, the SAO also conducted audits in the areas of sustainable and cost-efficient energy supply, the improvement of competitiveness, the utilisation of research and environmental sustainability. The SAO continued – and intends to continue in the next three years – to perform thematic audits, which are specifically suitable for the efficient auditing of a large number of organisations.

In its audit plans for the first and second half of 2015, the SAO defined 47 audit subjects. They included 11, previously unaudited subjects and areas. In 2015, public bodies, non-governmental human service providers, town museums with county right and local government debt clearance procedures appeared among the subjects of thematic audits. Ad hoc audits affected the IT system of public finances, the system managing the debt of the central subsystem of public finances, the national framework of data protection, the management of carbon credits, the graduate career management system, tourism development measures and the Hungarian Scientific Research Fund. In 2015, the SAO issued 221 audit reports and audited 717 sites.

Figure 4



### **Audits affecting organisations influencing developments in the public debt ratio, public deficit and the competitiveness of the country**

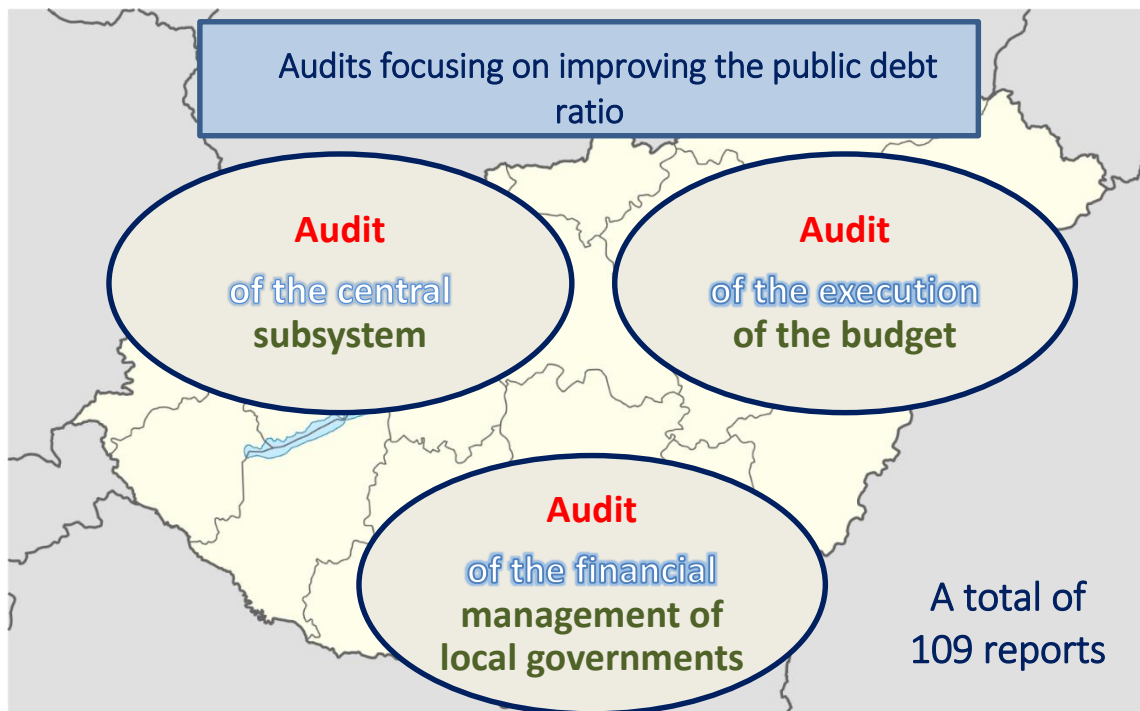
Improving the public debt ratio with a focus on macroeconomic risks is a central element of the SAO's medium-term audit concept. With that in mind, the SAO places special emphasis on auditing the organisations whose activities exert the greatest impact on changes in the public debt ratio. Based on risk analyses, financial management and the use of public funds proved to pose risks at a number of institutional groups, indirectly jeopardising the implementation of the public debt reduction objective. For this reason, most of these institutions were subject to thematic audits, which enabled the SAO to conduct efficient audits in all sub-segments of public finances and at even more organisations outside of this area.

It was in this context that the SAO audited the execution of the budget and conducted audits at institutions of the central subsystem and of the local government subsystem in 2015.

Representing a substantial share in the use of public funds, the institutions of the central subsystem may exert a significant impact on maintaining the fiscal equilibrium, owing to the weight of their financial and property management activities and their task performance. In performing their public functions, they also have an impact on citizens' quality of life and on the exercise of their rights and obligations.

One of the priority areas of SAO audits is the property management and financial position of local governments and the set-up and operation of the sector's internal control systems. The objective of the audits is to ensure the utilisation of the findings and the recommendations in order to prevent the re-accumulation of the outstanding debt of local governments. In the context of thematic audits among local governments, the SAO also audited the financial management of local and national minority self-governments.

Figure 5



### **Audit on the exercise of proprietary rights over state and local government property**

Pursuant to legal provisions, the State Audit Office of Hungary audits the exercise of proprietary rights over state property on an annual basis. It conducted thematic audits on the asset preservation and financial management activities of state-owned (or partly state-owned) business associations outside of public finances, classified into the government sector.

By the adoption of the 2011 amendment to the SAO Act, the National Assembly empowered the SAO to extend its audits to business associations in majority local government ownership. Under this mandate, in 2015 the SAO audited business associations providing waste management and district heating services.

As part of the audits, SAO evaluated the regularity of property management and activities aimed at the preservation and accumulation of asset value among these companies.

### **Audits with limited auditing powers**

The scope of these audits is also defined by law. As a result of limited auditing powers, on-the-spot checks do not necessarily cover all activities of the audited entity, the comprehensive regularity of its operation or the substantiation of its task performance.

In the framework of audits with limited auditing powers, the SAO audited the National Bank of Hungary (MNB), political parties and party foundations, the accounting of campaign funds and of the funds spent on parliamentary election campaigns, as well as the utilisation of the funds spent on the 2014 elections.

### **Follow-up audits**

Through our independent follow-up audits, we initiated real changes in 2015 as well with respect to the sound management of public finances. As a result of the action plans implemented – and audited in the context of our follow-up audits –, the probability of irregularities or errors emerging at the audited organisations declined.

Effective from 1 July 2011, the new Act on the State Audit Office of Hungary put an end to the era of audits without consequences in Hungary. The head of the audited entity is required by law to develop an action plan in response to the findings of the SAO report and send that plan to the State Audit Office of Hungary within thirty days from the receipt of the report. Under its statutory mandate, the SAO is entitled to verify the execution of the tasks defined by the audited entity in the action plan in the framework of follow-up audits.

The SAO attaches great significance to the utilisation of its audit findings, which are intended to be a feedback to decision-makers and the audited entities, and support the regular and effective utilisation of public funds. Follow-

up audits help ensure that the State Audit Office achieves veritable change through its audits in connection with the sound management of public finances.

In this context, in 2015 the SAO conducted follow-up audits on the regularity of Hungarian Post Co. Ltd., the measures combatting air pollution and the financial management of local governments.

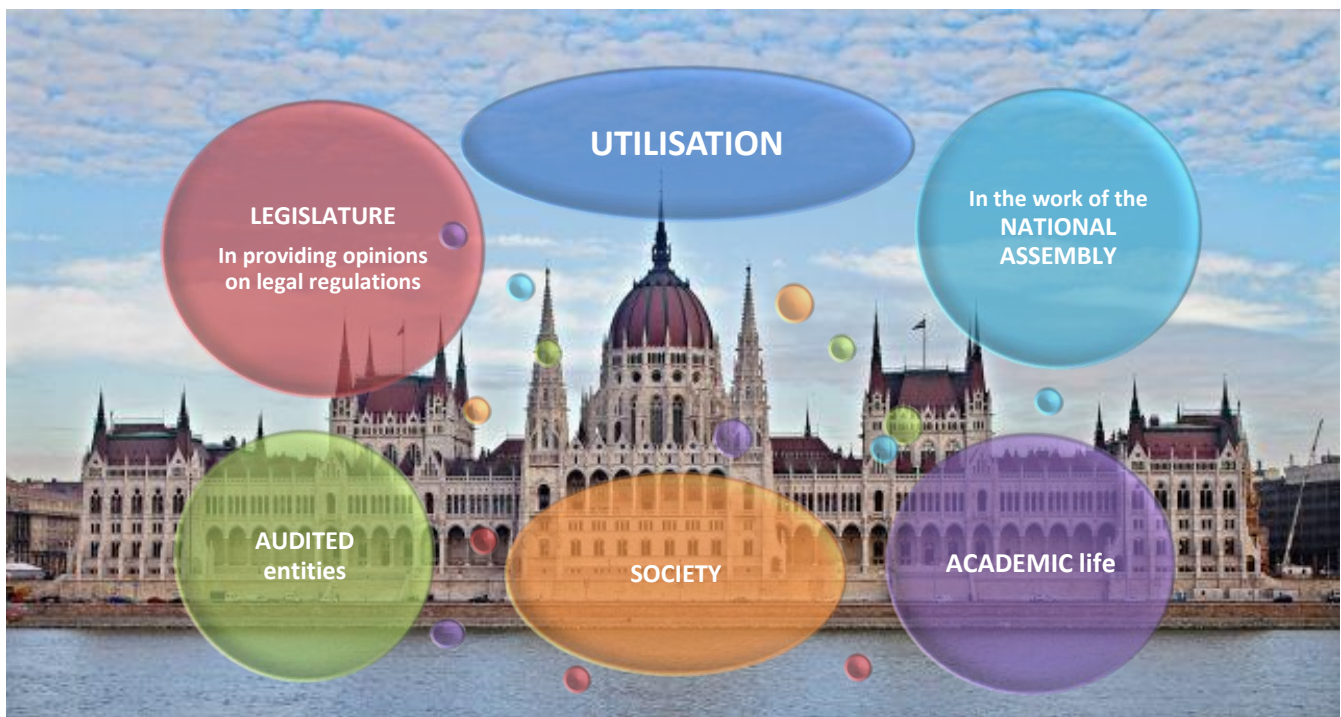
# SAO PROFESSIONAL ACTIVITIES IN 2015

*In 2015, efforts continued to institutionalise and integrate into the daily work flow the fundamental principles of the utilisation of audit work, bearing in mind the need to maintain and improve efficiency. The SAO attaches great significance to the utilisation of its audit findings, which are intended to be a feedback to decision-makers and the audited entities, and support the regular and effective utilisation of public funds. The analyses and studies prepared within the organisational framework of the SAO in relation to the audits performed also have significance over the medium term; by pinpointing broader correlations and drawing deeper conclusions they contribute to the operation of a well-managed state and to the extension of the SAO's advisory activity.*

## 1. Utilisation of reports

*The State Audit Office of Hungary places emphasis on supporting the work of the National Assembly and it participates in legislation by providing opinions on legal regulations. The foundations of the utilisation of SAO reports by audited entities are the SAO's recommendations, which are based on findings with obligations to take action and on the action plan prepared by the audited entity's manager. The SAO pursues a proactive communication activity and provides information on its activities on a continuous basis to ensure publicity and the utilisation of its reports at the level of society.*

Figure 6



## 1.1. Utilisation of the SAO’s experiences in the work of the National Assembly

*It is a strategically important mission of the SAO to support the operation of a well-managed state by sharing its experiences. Cooperation with the National Assembly is an important part in achieving this goal and in the utilisation of the SAO’s experiences. In the framework of this cooperation the SAO supports the work of the National Assembly through its audits and its recommendations. As a result of the cooperation, National Assembly committees discussed numerous SAO reports and documents in 2015.*

OUR PERFORMANCE IN NUMBERS WITH RESPECT TO SUPPORTING THE WORK OF THE NATIONAL ASSEMBLY	
49	SAO documents discussed by National Assembly committees
33	committee meetings where SAO documents were discussed
31	session days where MPs referenced the SAO
32	committee meetings with the attendance of SAO staff
12	information documents prepared for MPs

### Cooperation with the National Assembly

The SAO utilised its audit experiences by presenting information documents written on the given legislative topic to the National Assembly, through Parliamentary addresses and by providing opinions on legal regulations.

The utilisation of audit experiences and the support provided to the National Assembly’s work are also reflected in numbers: in 2015, references were made by MPs to SAO reports and findings on 31 session days and three SAO documents bearing a parliamentary document number were discussed at plenary sessions. In 2015, the work of National Assembly committees, and MPs involved in legislative work continued to rely on and utilise the findings and recommendations contained in SAO reports. Upon selecting its audit topics, the SAO took into consideration key subjects arising during the work of the National Assembly and prepared information documents based on its reports in numerous cases. Therefore, to ensure best possible utilisation, the SAO collected its audit experiences in a targeted fashion, aligned to the subjects arising, and actively responded to the activity of the National Assembly and the topics discussed in several cases.

### State Audit Office reports in the work of National Assembly committees

In 2015, a total of 49 SAO reports were put forward to National Assembly committees.

In addition to the SAO’s opinion on the 2016 budget, the report on the 2014 final accounts bill and the report on the SAO’s annual activity in 2014, the SAO shared its experiences regarding the audits of 17 theatre companies owned by local governments and 28 minority self-governments, as well as local governments.

### Parliamentary addresses

Pursuant to the Act on the National Assembly, the President of the State Audit Office is entitled to participate in any meeting or session of the National Assembly – including closed sessions – and to speak at any time; furthermore, any MP may also address questions to him. In the interest of the utilisation of the findings and recommendations of SAO reports in legislation, the President of the SAO spoke at parliamentary debates on a number of bills.

The President of the SAO took the floor in the general debate of the **2016 budget**, presenting the opinion of the State Audit Office on the bill. The President of the SAO shared the institution’s audit experiences in his introductory speech in the general debate on the bill of the **execution of the 2014 budget**.



The SAO emphatically expressed its opinion during the debate on the **Bill on the substantiation of Hungary's 2016 central budget**. Focal issues highlighted in the speech on the powers vested with the controllers of budgetary institutions included responsibilities regarding the maintenance of the fiscal balance and the responsibilities of the controllers and heads of budgetary institutions.

The President of the SAO shared with the National Assembly the audit experiences gained during the comprehensive audit commenced in 2014 on the higher education institutional system run by the state in the context of the proposed amendment to the Act on higher education. In his address, the President of the SAO emphasised that in order to avoid wasteful spending and to ensure the regularity of the financial management of higher education institutions, the operator's regular control is required; therefore, the Act should not only require the operator to audit the institutions concerned, but also to prescribe the frequency of such audits.

### **Information materials for MPs**

It is a statutory responsibility of the State Audit Office to support a well-managed state, good governance and the legislative process of the National Assembly with its experiences. It is an important task of the State Audit Office to keep the National Assembly informed to ensure that the SAO's reports, as well as the findings, correlations and recommendations contained in the reports, contribute to substantiating the legislative work of decision-makers. The SAO's goal is to set in motion such positive changes that improve the well-being and safety of citizens.

As the supreme financial and economic audit institution of the National Assembly, the State Audit Office of Hungary assigns great significance to the utilisation of its work. The National Assembly plays a key role in the utilisation of SAO reports. The findings, correlations and recommendations contained in the reports support legislators in making their decisions based on information supported by the SAO's audits.

To that end, in 2015 the State Audit Office prepared information materials for the National Assembly in the following subjects: national parks, the UN Framework Convention on Climate Change, the Hungarian Competition Authority, the Pension Reform and Debt Reduction Fund, the National Land Fund Management Organisation, waste management companies in majority ownership, district heating companies, higher education institutions, absorption of EU funds, the National Food Chain Safety Office, the fight against corruption.



## 1.2. Utilisation in the provision of opinions on legal regulations

*The SAO's audit experiences not only support the National Assembly and its committees in legislature, but also the government. Pursuant to the new SAO Act, the President of the State Audit Office of Hungary shall participate in the preparation of legal regulations concerning the legal status and competence of the SAO, the operational rules of public finances and the internal audit of budgetary institutions and the accounting rules of public finances. Draft legislation shall be forwarded to the SAO as early as the administrative coordination procedure, and the SAO shall be provided adequate time-limits for giving its opinion on such drafts.*

### Active cooperation

The SAO supports the government's legislative work in part on the basis of specific statutory provisions, and in part through its own initiative, by virtue of the constitutional status of the State Audit Office. Without exception, the SAO's goal in this work is to support high-quality legislation and to ensure that the experience, knowledge and accumulated information acquired by the SAO during its wide array of audits are utilised in the rectification of legislative deficiencies.

In order to guarantee that the SAO's audit and analytical experiences support in a timely manner – as early as the initial phase of the legislative process – all draft legislation affecting the operation and core activity of the SAO, it needs to proceed actively and proactively towards the competent government bodies. To that end, the SAO has taken the initiative on several occasions beyond administrative consultations and parliamentary speeches; it sent a number of indications to the government concerning legal regulations and requirements, and called attention to the indispensability of professional cooperation for high-quality legislature, with special regard to current issues related to the rules on public finances.

### Opinions provided on draft legislation

In 2015, the SAO reviewed nearly 25 draft regulations as part of its duty on providing opinions. Moreover, taking advantage of its audit experiences affecting the legal environment or the application of law, it supported the work of competent ministries and government bodies on a continuous basis. The SAO participated actively in providing an opinion on the proposed amendment to the second action plan on the commitments made by Hungary under the Open Government Partnership (OGP) – in the bill underlying the 2016 budget, to the Act on Public Finances and the Government Decree on the Implementation of the Act on Public Finances – in relation to the controller's responsibility.

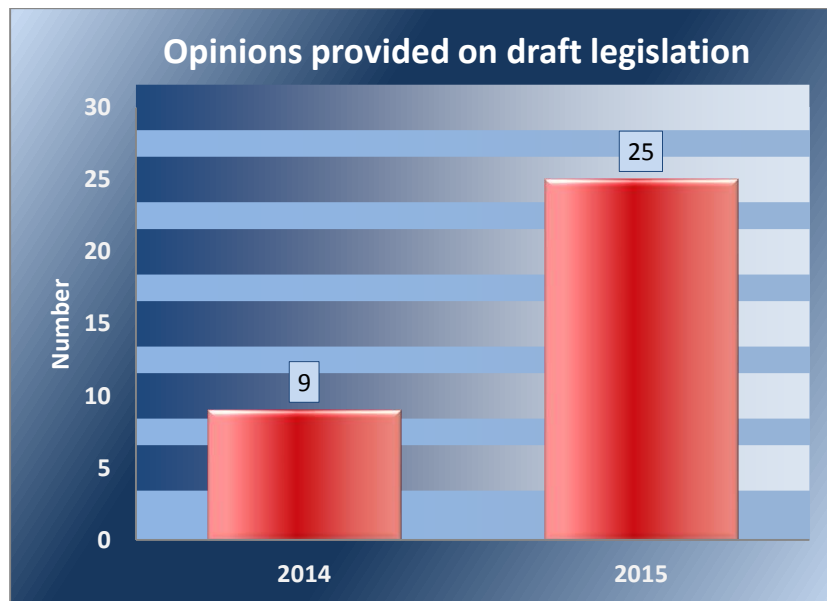
Moreover, the SAO offered comments to help the work of the National Assembly in relation to proposed amendments to certain acts related to the reduction of remunerations provided to government executives, to the new Act on Public Procurement, to the acts on national assets, to the rights of minorities and to the Act on Local Governments in Hungary.

#### TYPES OF DRAFTS COMMENTED ON BY THE SAO

- ✓ Acts
- ✓ Government Decrees

Figure 7 indicates the number of draft legal regulations on which the SAO provided an opinion in 2014 and 2015.

Figure 7



#### Additional tasks defined by the National Assembly

In discussing and approving the report on the SAO's annual activity in 2014, the National Assembly acknowledged the work performed by the State Audit Office regarding the detection of corruption risks, and its efforts expended in relation to the promotion of an integrity-based organisational culture. In order to provide additional support to this process, the National Assembly agreed that the SAO should broaden its advisory activity regarding management systems and support the training of ethical managers in public finance.

### 1.3. Recommendations and action plans based on findings with obligations to take action

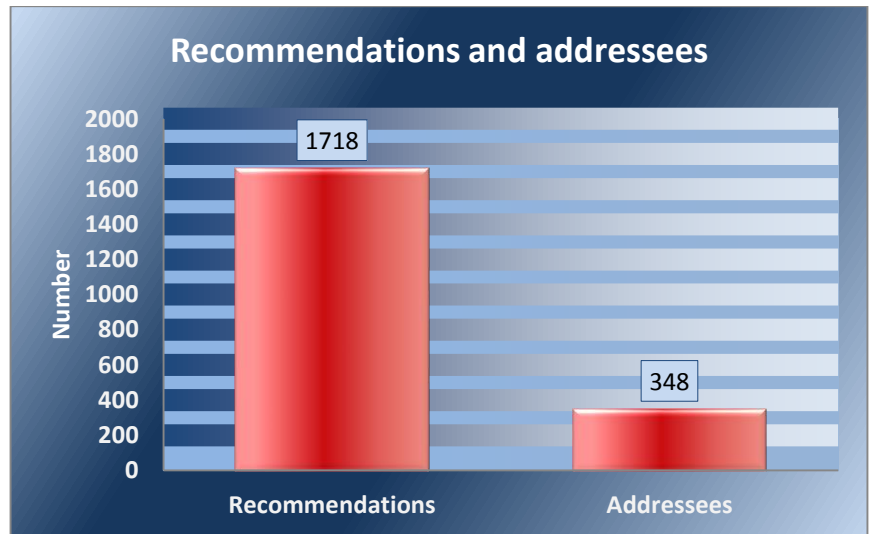
*The foundations of the utilisation of SAO reports by audited entities are the recommendations based on findings with obligations to take action and the action plan prepared by the audited entity's manager.*

#### Recommendations based on findings with obligations to take action

Based on the findings of the 221 SAO reports published in 2015, the SAO formulated a total of 1,718 recommendations to the audited entities with obligations to take action. In 2015, audits among business associations owned by local governments continued. The number of recommendations issued during the auditing of business associations owned by local governments more than doubled compared to the previous year. The number of recommendations made on the subject rose to 229 in 2015 compared to 104 in 2014. The audits on national minority self-governments also concluded in 2015, with 240 recommendations made by the SAO.

Figure 8 indicates the number of recommendations and addressees in 2015.

Figure 8



**OUR PERFORMANCE IN NUMBERS WITH RESPECT TO RECOMMENDATIONS, ADDRESSEES AND ACTION PLANS**

<b>1718</b>	recommendations based on findings with obligations to take action
<b>348</b>	addressees
<b>487</b>	opinions provided on action plans

**Action plans**

It is the statutory obligation of the heads of audited entities to draw up an action plan based on the findings of the audit report. In case of a failure to do so, the SAO is entitled to impose sanctions under the SAO Act. In the past year, the SAO conducted the assessment of a total of 487 action plans based on pre-determined criteria. More than 200 audits were concluded after the SAO had found that the action plans were in line with the findings and recommendations issued by the SAO.

**Obligation to cooperate**

Audited entities have been bound by the obligation to cooperate for the past five years under the SAO Act. This includes, among other obligations, the obligation to make available all documents and data required for the execution of the audit and to draft an action plan. Failure to perform the obligation to cooperate may result in the legal consequences specified in the Act.

In 2015, the SAO called for action due to failure to cooperate in ten cases, the majority of which affected accountability with respect to the spending of public funds in relation to elections. Nine audited organisations failed to comply with their obligation to cooperate in data reporting. Data requests were addressed to the managers of audited entities in the form of regularly delivered SAO queries aimed at the performance of the data reporting obligation stipulated in the audit programme. In line with the principle of gradualism, in the context of the cooperation the audited entities were given an opportunity for performing their data supply obligation on several occasions.

Initiating the action specified in Article 33 (3) a) of the SAO Act was necessitated by the written declaration of the representatives of the audited entities to the effect that they were unable to make available the relevant documents and data requested by the auditors.

The SAO has developed and applies a computerised database with pre-specified contents for the up-to-date monitoring of the performance of the obligation to prepare an action plan.

### Warning letters issued by the President

The President of the SAO sent 77 warning letters to the heads of the audited entities in relation to the SAO reports issued in 2015. The warning letters were typically intended to call the attention of the heads of the audited entities to operational and/or ad-hoc financial management risks or high-risk areas which, in the opinion of the SAO, needed to be addressed for the full enforcement of the protection of public funds, as well as the provisions set forth in the Fundamental Law and in the rules on public finances.

## 1.4. Legal consequences related to audits

*Article 1 (5) of the SAO Act grants general powers to the State Audit Office for cases where the notification of an authority or professional advocacy organisation is warranted during the execution of the audit in relation to certain irregularities established during the audit.*

### What are notifications?

Article 1 (5) authorises the SAO to initiate proceedings with the competent authority against the audited entities and the persons responsible based on its findings.

### Notification of investigative authorities

In addition to the general powers specified in Article 1 (5) of the SAO Act, pursuant to Article 30 (1) of the SAO Act, the SAO must notify the competent authority without delay if during its audit it has grounds to suspect a criminal offence. In the case of other illegal acts, it may initiate the clarification and enforcement of liability.

In 2015, the SAO notified competent investigative authorities in 55 cases. After the notification, the facts are investigated by the investigative authorities, and the SAO has no further control on the case. As required during the investigation, the SAO provides further data upon request by the given investigative authority.

40% of the SAO's notifications to investigative authorities were related to the audits of local governments, 18% to institutions of the central sub-system, 15% to business associations, 11% to minority self-governments, 11% to campaign funds and 5% to other organisations.

Notifications to investigative authorities in the period of 2013–2015 are presented in Figure 9.

Figure 9



**OUR PERFORMANCE IN NUMBERS WITH RESPECT TO THE INITIATION OF ADMINISTRATIVE PROCEDURES**

<b>55</b>	notification of investigative authorities
<b>36</b>	opening of public procurement legal remedy proceedings
<b>50</b>	notification of government agencies
<b>53</b>	other (NAV, MKK, NMHH, KLIK, Court of Registration)

**Utilisation: investigations in progress**

Currently, there are 74 cases in progress – also covering previous years – placed under investigation on the basis of notifications by the SAO to the investigative authorities. Investigations are typically opened on suspicion of the following criminal offences:

- misappropriation,
- violation of accounting rules,
- budgetary fraud.

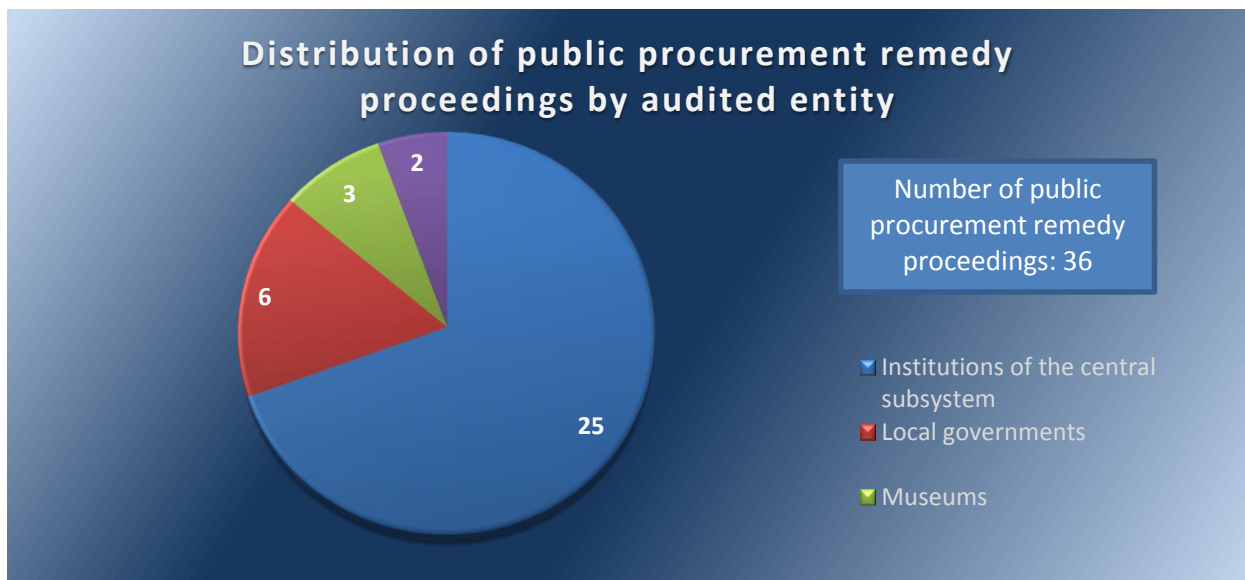
**Opening of public procurement legal remedy proceedings**

In 2015, the SAO initiated the opening of public procurement legal remedy proceedings with the Public Procurement Arbitration Board in 36 cases. 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 legal remedy proceedings has been extended from 30 days from learning of the infringement to 60 days. The objective deadline – in some cases – was changed to 5 years from contract conclusion instead of 3 years. As a result, there is more time available for initiating legal remedy proceedings, which supports the enforcement of the consequences of audits.

In 33 of the 36 legal remedy proceedings initiated (92%), we found that the public procurement procedure was unlawfully omitted. In the public procurement cases concerned, we found irregularities in breach of the provisions of the Act on Public Procurement on purchase value at a value of over HUF 1 billion.

Figure 10 indicates the distribution of public procurement remedies by audited entity.

Figure 10

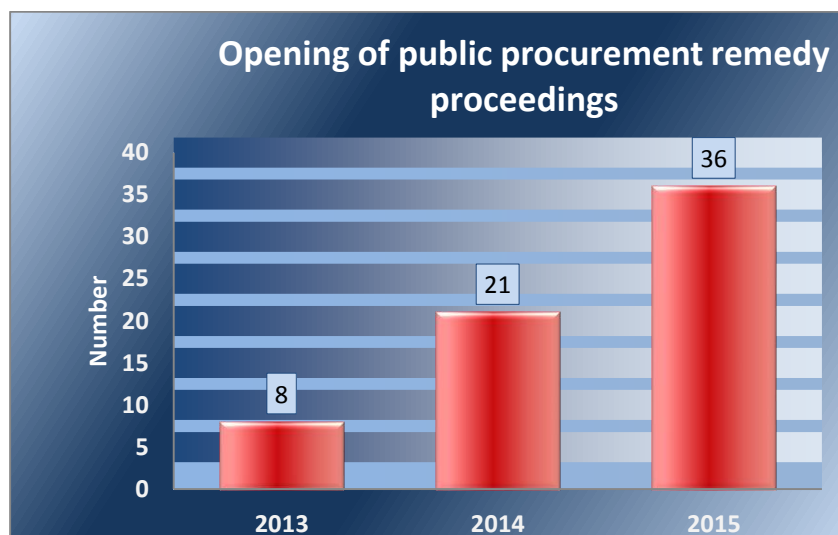


In the legal remedy proceedings opened in the case of public procurement irregularities, violations were established in nearly all of the cases and fines were imposed in numerous cases.

All this supports the legal execution of purchases among the organisations subject to the Act on Public Procurement and the transparency of the spending of public funds.

Figure 11 indicates the increase in the number of the opening of public procurement remedy proceedings.

Figure 11



#### Notification of government agencies

In relation to the audit of local governments, the SAO notified the competent capital and county government offices responsible for the legal compliance supervision of the local government in 50 cases (concerning local governments in 40 cases, minority self-governments in 8 cases and local government-owned business associations in 2 cases). The reason for the notifications was the fact that the factual findings of the auditors could be best remedied by the capital and county government offices concerned, as they are responsible for the legal compliance supervision of the local government and by virtue of their supervisory role they have more direct and therefore more efficient tools available than the SAO.

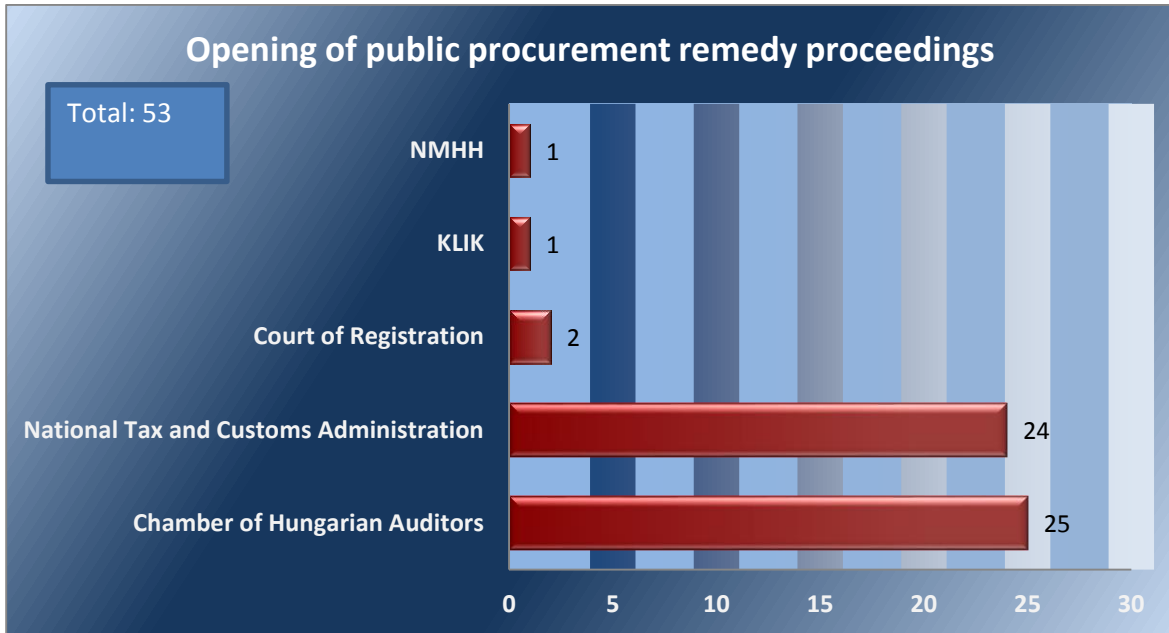
#### Other notifications

In addition to the investigative authorities, the Public Procurement Arbitration Board and the government offices responsible for legal compliance supervision, the SAO also notified other authorities and advocacy organisations based on its audit findings. In 2015, primarily during the audit of business associations, it needed to notify the Chamber of Hungarian Auditors (MKVK) on several occasions due to auditing irregularities detected at the audited entity.

Besides the MKVK, we notified the National Tax and Customs Administration (NAV) in a number of cases with respect to invoicing and taxation issues.

Figure 12 indicates the distribution of other notifications.

Figure 12



#### Notifications with respect to the audit of campaign funds

Administrative notifications regarding the audit of campaign funds represented a large share in the consolidated data of administrative notifications of 2015. In accordance with its statutory obligation, the SAO evaluated the use of funds spent on the 2014 parliamentary elections in the context of several audits in 2015.

The SAO notified competent investigative authorities in 6 cases; moreover, it notified the National Tax and Customs Administration of irregularities on 15 occasions.

The SAO also contacted the National Media and Infocommunications Authority (NMHH) with regard to deficiencies detected during the audit of campaign funds in relation to media products used in the election campaign.

As a result, in 38 cases the National Media and Infocommunications Authority commenced administrative procedures regarding a number of publications participating in the election campaign where the publication's media product nature could not be verified during the audit. The administrative procedure is intended to ensure the legally compliant publication and operation of media products.

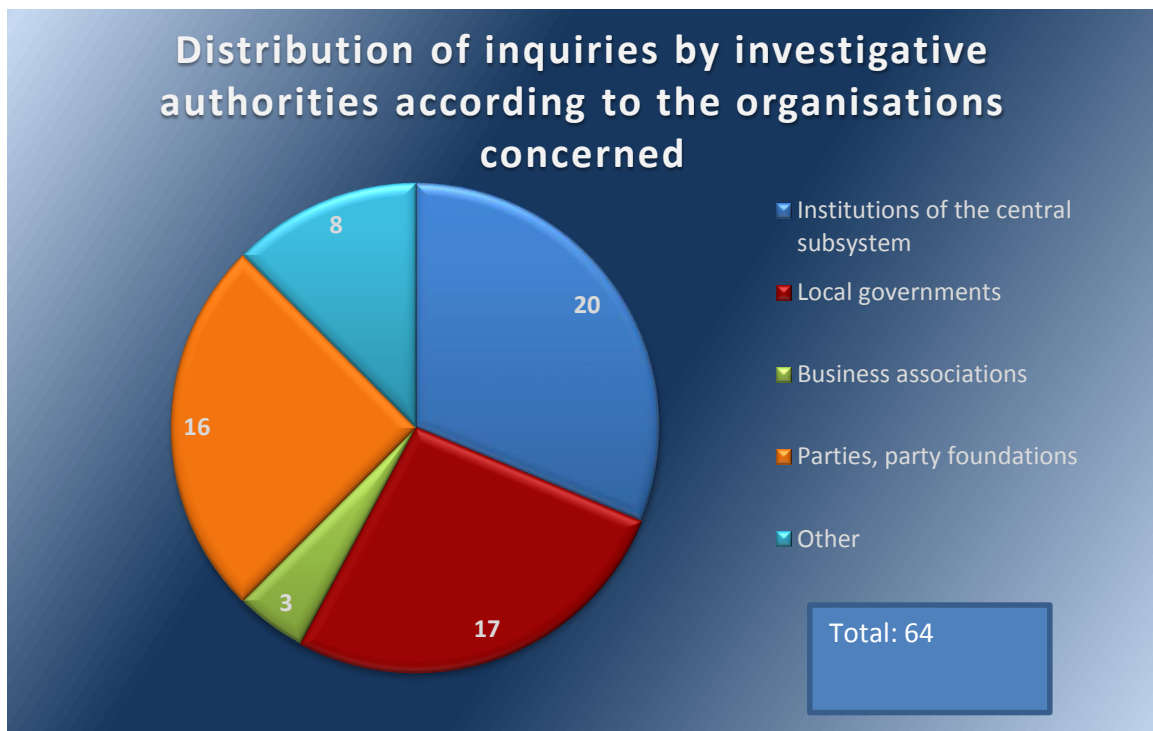
#### Cooperation with investigative authorities

Pursuant to Article 71 (1) of Act XIX of 1998 on Criminal Proceedings, the court, the prosecutor and the investigative 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.

In 2015, the SAO responded to 64 official requests from investigative authorities, through which it provided substantial assistance to the investigative authorities conducting the criminal proceedings. For some of the inquiries, investigative authorities requested further documents and information for investigations opened in cases initiated by the SAO. Another part of the inquiries by investigative authorities affected criminal proceedings already in progress, commenced upon notification by the SAO. This is because in relation to its audits, the SAO may have documents or information available that could be of significance in criminal proceedings.

Figure 13 indicates the distribution of inquiries by investigative authorities.

Figure 13





## 1.5. Follow-up audits

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*Effective from 1 July 2011, the new Act on the State Audit Office of Hungary put an end to the era of audits without consequences in Hungary. The head of the audited body is required by law to develop an action plan in response to the findings of the SAO report and send that plan to the State Audit Office of Hungary within thirty days from the receipt of the report. Under its statutory mandate, the SAO is entitled to verify the execution of the tasks defined by the audited entity in the action plan in the framework of follow-up audits. The SAO attaches great significance to the increased utilisation of its audit findings, which are intended to be a feedback to decision-makers and the audited entities, and support the regular and effective utilisation of public funds. Follow-up audits help ensure that the State Audit Office achieves veritable change through its audits in connection with the sound management of public finances.*



In line with its Strategy, the SAO made the system of follow-up audits more targeted to ensure that the findings of the audit work are better utilised and exert a greater impact. In the framework of follow-up audits, the SAO evaluates the execution of the tasks defined in the action plan. The result of this work is indicative of the regularity of the audited entity's operation.

Failure to implement the measures poses a risk to accountable manager conduct and the regularity of operation; therefore, in order to address and mitigate these risks, further measures need to be taken. If the SAO's follow-up audit finds that the audited entity failed to fully execute the tasks undertaken in the action plan prepared to address the findings calling for measures, the SAO may take further steps.

To ensure the regularity of the audited entity's operation and to address the risks detected, adhering to the principle of gradualism, the SAO is entitled to apply the tools specified in the SAO Act. Accordingly, the SAO may send a warning letter to the head of the audited entity, it may conduct an audit, it may send an indication to the managing body, it may suggest that the competent committee of the National Assembly discuss the report and its findings and set up a hearing to interview the head of the audited entity; moreover, in case of irregular or wasteful use, it may request the competent authorities to take asset protection measures.

## 1.6. Professional relations

*The SAO placed great emphasis on improving the quality of its professional relations in 2015 as well. In order to share audit experiences, the President of the SAO and SAO managers gave professional presentations at several national professional forums. The SAO has drawn up a contact strategy and an optimisation plan aimed at the enhancement of institutional relations.*



### What is a “Good Practices” seminar?

In the course of its audits, the SAO not only reveals shortcomings, but also encounters innovative financial management policies or good practices. Recognising the value behind this fact, in 2010 the SAO decided to promote these good practices by launching a series of seminars entitled ‘*Leading by example – Good practices in the spending of public funds*’. In the past five years, in support of the audited entities, the SAO shared its audit experiences at 12 ‘Good Practices’ seminars.

#### OUR PERFORMANCE IN NUMBERS WITH RESPECT TO PROFESSIONAL RELATIONS

**5** Hungarian and international events

**40** professional presentations

**3** new cooperation agreements

### Sharing of audit experiences

The SAO organised four ‘Good Practices’ seminars in 2015. The seminars focused on the domestic and international aspects of transparency and integrity in March, higher education institutions in May, and the audit experiences of the public utility companies of local governments in October. In November, the SAO hosted an international event focusing on public procurements. Around 400 attendees participated at the four events on behalf of 120 organisations managing or using public funds. Since there were two ‘Good Practices’ seminars in 2014, in 2015 the number of conferences promoting knowledge sharing doubled.

It was in 2014 that the State Audit Office for the first time arranged a several day long international seminar aimed at the promotion of integrity-based administrative culture and the enhancement of the transparency of the state apparatus in the affected – primarily emerging – countries, through the sharing of good Hungarian and international practices. 25 SAI experts of 15 countries from four continents attended the SAO’s second international integrity seminar in 2015.

In addition, as was the case in previous years, SAO managers and experts responded to numerous external invitations to hold presentations at around 40 conferences and professional events in 2015.

### Liaising and cooperation

In the context of a comprehensive review of institutional liaising, the SAO summarised the experiences of the past four years and developed a uniform contact strategy. We revised and expanded the SAO principles driving our liaising activity and developed an optimisation plan to enhance institutional relations.

In keeping with its strategic objectives, the State Audit Office has developed an extensive cooperation network over the past five years. In terms of the professional/academic and utilisation potentials of the cooperation network, however, there is still room for improvement. Therefore, in 2015 the emphasis shifted from the expansion of the network to the enhancement of the quality of the cooperation agreements with a focus on content.

In accordance with the National Assembly’s resolution on administrative management systems, we renewed the agreement between the SAO and the University of Miskolc, with a view to enhancing public sector management. Through this cooperation, we contributed to establishing the conditions of dual training and further training, and a university training system has been developed for researching and teaching the measurement of public sector performance. In the spirit of corporate social responsibility – in accordance with the 2014 resolution of the National Assembly – in 2015 the State Audit Office continued to act as

an initiator in the national cooperation aiming to enhance the financial literacy of the Hungarian population.

In relation to corporate social responsibility, we signed a Memorandum of Understanding with the Hungarian Institute for Culture in order to enhance the financial literacy of the adult population. Moreover, we renewed our 2014 cooperation agreement with the Budapest Chapter of the Information Systems Audit and Control Association (ISACA). At the end of 2015, the SAO had 23 cooperation agreements, 1 agreement with a partner institution (MPGEE) and 7 Cooperation MoUs.

## 1.7. Social utilisation and publicity

*A high rate of social utilisation is a fundamental expectation against SAO audits. Based on the ISSAI 12 international standard entitled ‘The value and benefits of Supreme Audit Institutions – making a difference to the lives of citizens’, the SAO formulated the methodological document entitled ‘Principles of the utilisation of SAI work’, and integrated it into the official professional rules of SAO audits. In accordance with the principles, the SAO pursues a proactive communication activity and provides information on its activities on a continuous basis.*

### What is utilisation?

The ultimate goal of the SAO’s activity 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 administrative procedures 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 being used.

### OUR PERFORMANCE IN NUMBERS WITH RESPECT TO COMMUNICATION

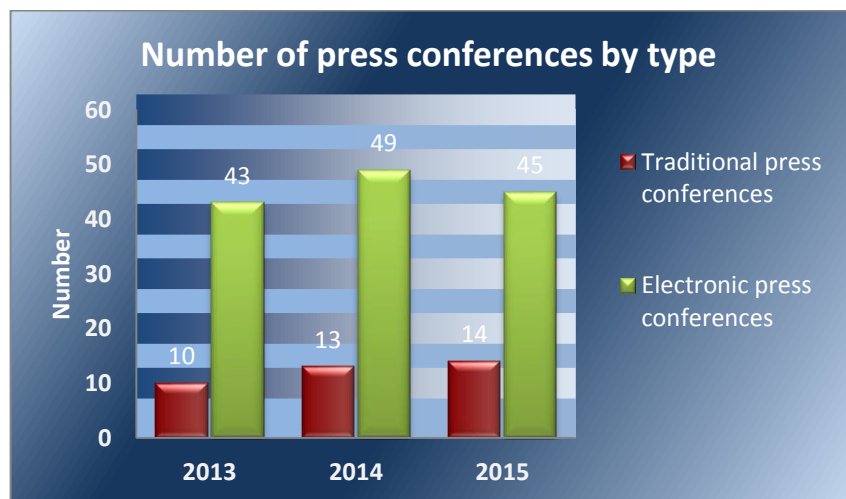
<b>5723</b>	news items in reviewed Hungarian press
<b>1293</b>	news items on the SAO News Portal
<b>45</b>	electronic press conferences
<b>14</b>	traditional press conferences

### Social utilisation

Between 1 January 2015 and 31 December 2015, the State Audit Office published 221 reports. In order to ensure the publicity of the 2015 reports, the SAO arranged 14 traditional and 45 electronic press conferences to inform the local media.

Figure 14 indicates the number of press conferences by type in 2015.

Figure 14



In 2015, the SAO issued 18 official press releases and addressed or responded to around 100 press inquiries and invitations; the latter shows a 25% increase compared to 2014.

It is a demonstration of the SAO’s active social communication that a total of 5,723 news items and references were made in 2015 in the Hungarian media in relation to the audits and activities of the State Audit Office. The corresponding number was 4,395 in 2014, which implies a 30% increase. The direct, primary source of around 75% of the news items was the SAO itself.

### What is the advertising value equivalent?

Print AVE value: Column size of the article printed multiplied by the advertising rates of the given printed medium expressed in forints. The resulting number is what it would have cost to place an advertisement of the positive news in the given medium at list price.



More than 88 million hits were registered regarding the articles published online, while papers published in print about the SAO’s activity generated a HUF 140 million advertising value equivalent.

### Media analyses

The SAO monitors the utilisation of its work continuously, preparing evaluations and analyses on specific utilisation areas (audited entities, state regulation, legal proceedings, social level), using both a quantitative and a qualitative approach. The latter media analyses reveal that slightly over 60% of the news items containing references to the SAO are posted online, while 20% appears in the printed press and 20% on various radio and television channels.

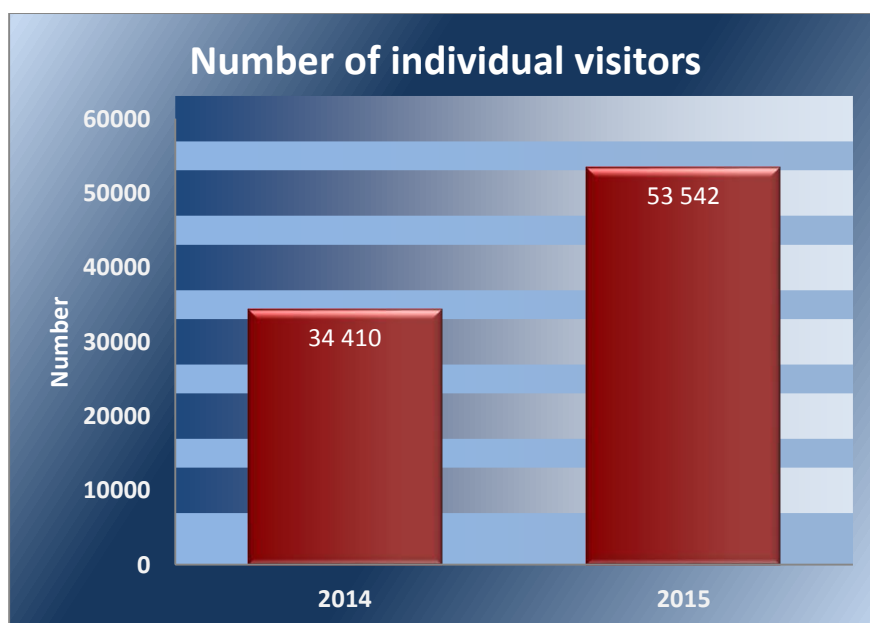
### Online communication

The news portal of the SAO ([www.aszhirportal.hu](http://www.aszhirportal.hu)) gives an insight into the day-to-day work of the institution, bringing a whole new level of transparency to a publicly funded institution even by international standards. Visitors can track audit processes through the various audit phases from planning and topic selection to utilisation.

In 2015, SAO staff members published 1,293 new articles on the news portal. The number of items posted on the website exceeded 80 in each month of the year; on average, 105 new articles were published every month.

In 2015, the number of individual visitors was up more than 55%, while the number of articles published and the number of downloads rose by more than 30% on the SAO’s news portal compared to 2014. The total number of the pages downloaded was close to 400,000. This demonstrates that the transparency of the State Audit Office in relation to its everyday work and activities was exemplary, ensured by the SAO’s continuous reports regarding its audit findings and analytical conclusions. Figure 15 presents the number of individual visitors in 2014–2015.

Figure 15

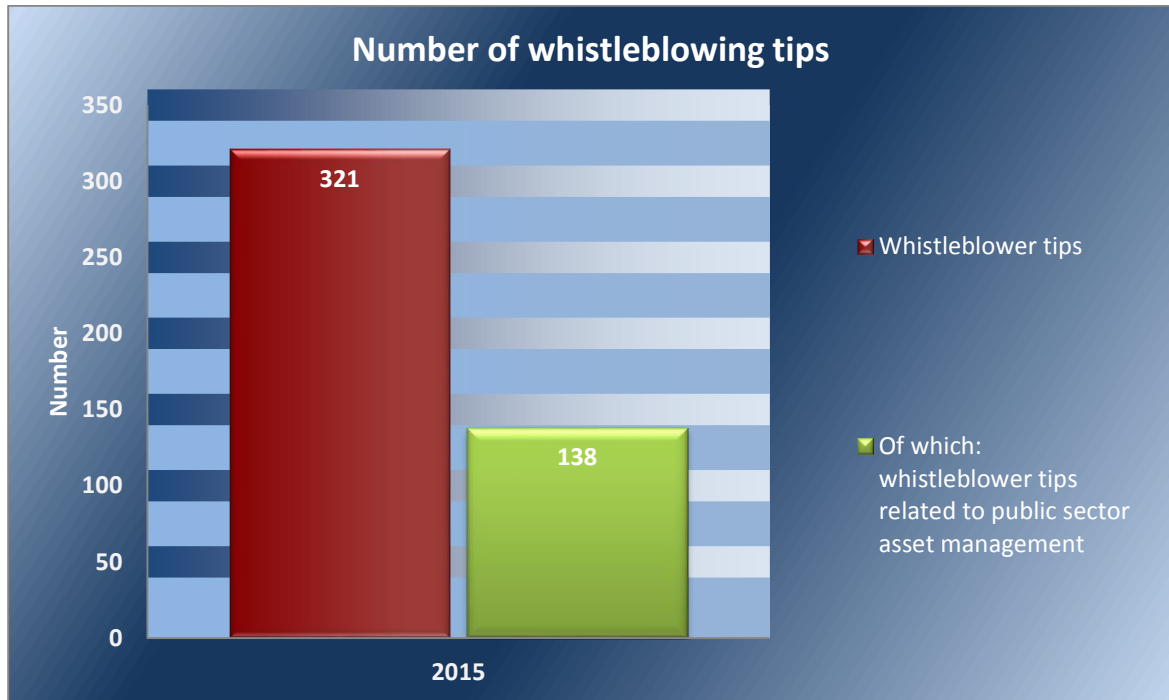


**In touch with citizens: whistleblowing**

In 2015, the SAO received 321 whistleblower tips from identified senders, more than one third of which (138) were related to asset management by the state and local governments.

Figure 16 shows changes in the number of whistleblower tips, including state and local government-related announcements.

Figure 16



**What is whistleblowing?**

Within the meaning of the relevant act, whistleblowing means 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. It may also contain a suggestion.

The number of whistleblower tips is edging up year after year; they are, therefore, increasingly important for assessing financial management and public finance risks.

Essentially, whistleblowing can be utilised in two ways. On the one hand, in accordance with the standard operating procedure on whistleblowing, information gleaned from such reports are utilised during the audits in progress, provided that they relate to an audit included in the SAO’s audit plan. This was the case for 32 such tips, in relation to 28 different institutions in 2015.

On the other hand, these whistleblower reports are considered by the SAO as risk factors in its audit plans, and – following risk analysis – the relevant data and facts disclosed in the reports are incorporated into the audit plans and the audit programmes concerned. In this context, the SAO sent 209 whistleblowing reports for utilisation by the risk analysis areas of 194 different institutions.

## 2. Audit topic selection and planning

*The SAO's topic selection and planning system is fundamentally determined by statutory auditing obligations and powers. In addition to the mandatory audit assignments prescribed by law, the SAO conducts targeted and timely audits which, by focusing on social and economic problems, are able to contribute to 'good governance', to a well-managed state and to the promotion of the transparency and the sound management of public finances.*

### 2.1. Audit topic selection and risk analysis

*Topic suggestions beyond the audit obligations set out by law are developed by relying on a risk analysis system based on targeted data requesting and data processing, which in turn contributes to improving the quality and efficiency of audits. The definition of audit topics, as well as the selection of the specific audit sites linked to the audit topics is preceded by thorough preparatory work. As in previous years, in 2015 the SAO assigned great significance to risk analysis and the preliminary studies underlying the development of the programme.*

#### *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.

#### *What is risk analysis?*

The concept of risk analysis is understood as the process of identifying risks (according to type, affected entity, site of emergence) and evaluating risks (magnitude of impact, probability of emergence, relevance and priorities).

#### **Audit topic selection**

It is of public interest that the SAO audits the areas most in need of auditing, while using an optimal level of audit resources.

The SAO's planning is built upon an audit topic selection that relies heavily on risk analysis and risk assessment results, applies a holistic approach and is aligned to the SAO's strategy. This facilitates a high-level of audit utilisation.

#### **Risk analysis**

The selection of audit topics, the preliminary studies and the selection of the sites of thematic audits are based on the analysis of information and data collected from various sources and on the analysis of the risks derived from the information.

Risk analysis relies both on internal and external data sources. The internal information base is composed of the experiences of previous and ongoing audits, as well as indications within the organisation. As regards the latter, risk indications prepared after the conclusion of SAO audits are of key significance supporting the identification of further risks in the audited areas, as well as the definition of new focal areas.

This is supplemented by external information, primarily by indications and information from the National Assembly and the media. In the reporting year of 2015, 74 relevant media and other indications were registered. In addition, external indications also include whistleblowing tips and complaints received by the SAO. In their case, we identify the relevant risks and the organisations affected by the risk.

Indications and reports received in previous years from MPs and local government representatives are treated as priorities. These indications have been utilised in topic selection in areas such as the audits on the management of carbon credits, the combat against ragweed, certain branches of the energy sector and the financial management of the Hungarian Intellectual Property Office.

The results of the integrity survey – a key part of the SAO’s advisory activity – are integrated into the risk analysis criteria. The SAO strives to expand its risk analysis system by new information sources on a continuous basis, as founded on a broader base, it can contribute to more grounded audit planning. The SAO’s risk analysis system is shown by Figure 17.

Figure 17



Risk analysis assists in the selection of the sites of thematic audits from populations composed of numerous elements (organisations of the central subsystem and of the local government subsystem of public finance, business associations, etc.). Risk analysis criteria include, among other things, the volume of public funds and public assets affected by the risk, changes in the indicators derived from the data of the budget statement. We also consider organisational and legislative changes, previous audit experiences and certain key risks, such as being subject to whistleblowing, foreclosure or debt clearance procedures, outstanding debt. Based on the results of the risk analysis, we prioritise risks according to a risk rating scale, and the selected organisations may become the sites of the thematic audits of the coming period.

**Foundation for audit planning – preliminary studies**

SAO audits can be divided into seven distinct phases from the definition of audit topics to the utilisation of SAI reports. In addition to topic selection, the first phase of the audit is focused on preliminary studies that lay the foundation for the preparation of the

audit programme and determine the detailed objectives, scope and risks of the planned audit. Typically prepared for ad-hoc audit topics, preliminary studies are of key significance from the aspect of keeping the audits on target.

## 2.2. The SAO's audit plan

*The SAO performs its activities on the basis of an audit plan, which is freely available on the SAO's website. In 2012, the previously used annual audit plans were replaced by semi-annual audit plans that support the process of rolling planning, which ensures greater flexibility for the organisation.*



### Audit plan published at semi-annual intervals

Serving as the foundation for the SAO's activity, the SAO's audit plans are developed based on the method of **rolling planning**. Audit plans are published and forwarded to the National Assembly semi-annually. The audit plan is composed of audit assignments prescribed by law to be conducted at specific intervals, mandatory audit assignments linked to certain events, and audit topics determined by the decision of the SAO's President. Statutory audit topics include the planning and execution of the central budget, the exercise of proprietary rights over state property, the financial management of parties and party foundations, the use of public funds in relation to election campaigns and the resource distribution of the Municipality of Budapest. Audit topics selected based on the decision of the SAO's President are determined in consideration of the topics proposed on the basis of the risk analysis.

The SAO's audit plans for the first and the second half of 2015 contained **a total of 47 audit topics**, including 9 statutory audits and 38 audits selected by the SAO itself. In 2015, 11 audits in the SAO's plans covered previously unaudited areas or topics, comprising 7 ad hoc and 4 thematic audits.

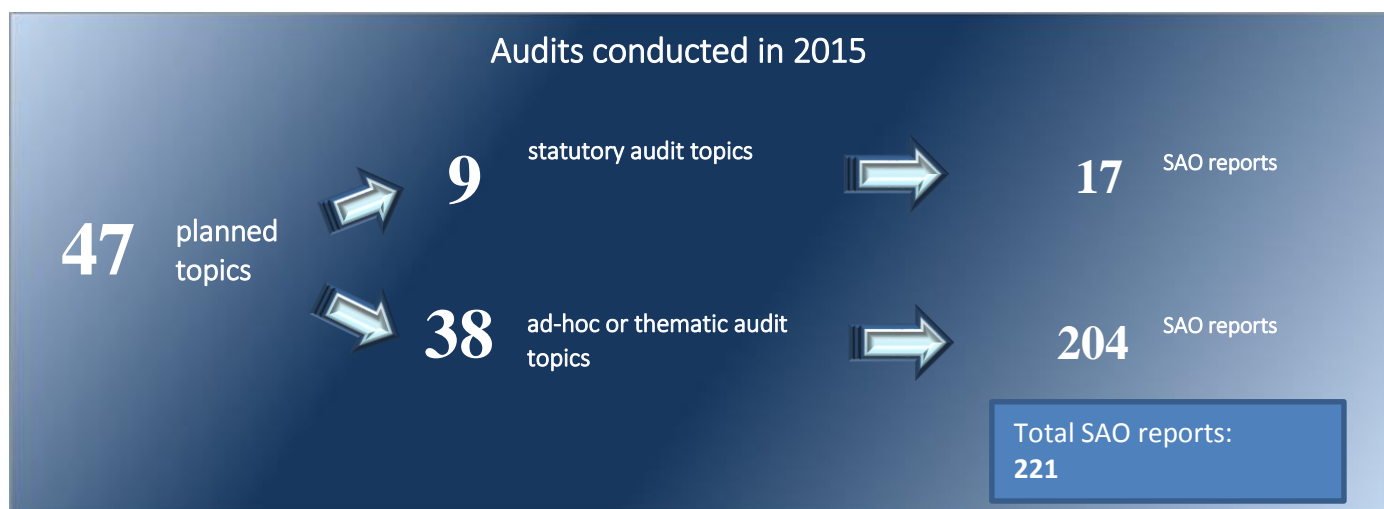
Public bodies, non-governmental human service providers, town museums with county right and local government debt clearance procedures appeared for the first time among the subjects of **thematic audits**.

Figure 18 presents the distribution of audit topics.

### 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 supports swifter utilisation and facilitates audits that are more efficient, more effective and more useful for society.

Figure 18





### *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. As a method of organising audits, this greatly improves the efficiency of the audits.

### **Thematic audits**

Applying the system of thematic audits is an effective tool in improving the efficiency of the audit activity, allowing for the audit of a greater number of organisations based on the same audit programme. In the context of the thematic audits introduced in 2012, the SAO conducts audits in specific topics in different sub-segments of public finances, and also at organisations outside of public finances. It performs regularly conducted thematic audits affecting the same area on the basis of regularly updated programmes.

In the context of its thematic audits, the SAO continued its previously commenced audits in such areas as the institutions of the central subsystem, certain organisations supported by public finances, enterprises owned by the state or companies owned or majority owned by local governments. The incorporation of these topics into the audit plans expanded the audited areas and reduced the number of previously unaudited, 'grey areas'.

### **Audit on the execution of the central budget**



It was defined among the strategic goals of the SAO that, for more efficient and effective final accounts audits, it should develop an audit model that is different in approach, contents and procedures from the one used before and that it should continue to support the National Assembly in its work and in making substantiated decisions. In 2015, the State Audit Office of Hungary carried out the audit of the execution of the 2014 central budget with a renewed methodology. As a result of the application of the new approach, for the first time in 2015, the coverage of the final accounts audit reached 100% of the expenditures and revenues of the central subsystem.

### 3. Audits affecting organisations influencing developments in the public debt ratio, public deficit and the competitiveness of the country

*The improvement of the public debt ratio as a constitutional objective – with a focus on macroeconomic risks – is a central element of the SAO’s medium-term audit concept. With that in mind, the SAO places special emphasis on auditing the organisations whose activities exert the greatest impact on changes in the public debt ratio. We annually audit the key participants of public revenues and expenditures focusing on the activities that have been deemed risky based on previous audit experience. The regular task performance of these organisations has an indirect impact on public deficit. Based on risk analyses, financial management and the use of public funds proved to pose risks at a number of institutional groups, indirectly jeopardising the implementation of the public debt reduction objective.*

#### 3.1. Audit of the final accounts

*In accordance with one of its most important statutory obligations, the State Audit Office of Hungary audits the execution of the central budget every year. In 2015, the reliability of the data contained in the final accounts bill, the regularity and reliability of the performance of the revenue and expenditure appropriations of the central subsystem, the enforcement of the requirements on public debt and the regularity of the compilation of the bill was audited on the basis of new methodological guidelines.*

Disclosure serial no. and link 	<a href="#">15167</a>	■ <b>Findings</b>
Press summary 	<a href="#">15167-O</a>	■

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](http://www.asz.hu)). The summary prepared for the press (also containing the main findings) is available at the link marked “O”.

**Audited areas**

Within the central subsystem, the audit of the final accounts covered centrally-managed appropriations, social security funds, extra-budgetary funds, chapter-managed appropriations including appropriations related to EU grants, and central budgetary institutions. Within budgetary institutions, we separately audited institutions subject to reporting obligation to the National Assembly, the institutions of constitutional chapters. Among central budgetary institutions, we conducted audits at 68 institutions. Some of them were also evaluated by the SAO in the context of the ‘Regularity audit on the financial and asset management of specific institutions of the central subsystem’.

**New methodology**

The methodological renewal was necessitated, on the one hand, by the 2013 issue of INTOSAI’s Fundamental Auditing Principles considered authoritative in the SAO’s work and on the other hand, by the new financial and budget accounting rules coming into effect in the previous year. Under the new methodology, the SAO applied a statistical method and in all areas, it audited items selected by statistical sampling. The audits

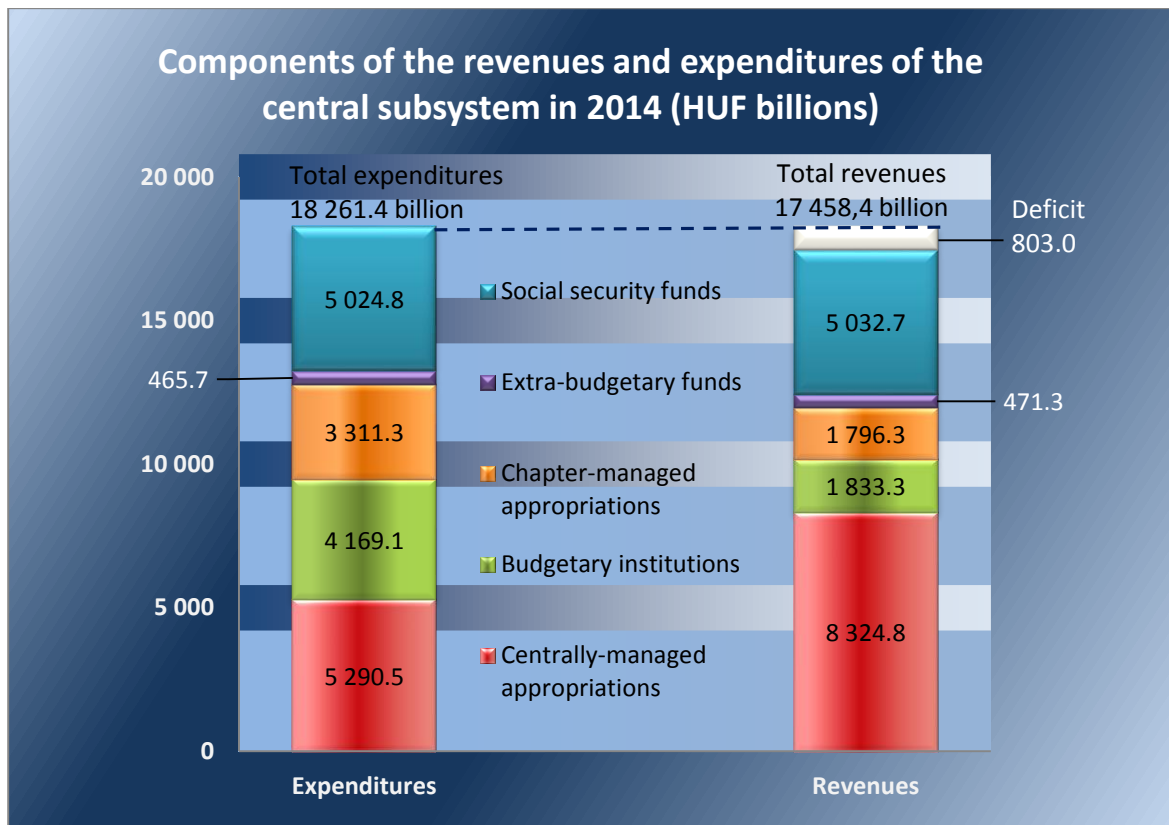
were conducted in consideration of regularity and reliability criteria. In the context of regularity audits, the SAO examined the regularity of the management of appropriations, the regularity of the accounting of revenues and expenditures, compliance with the accounting rules of public finances and the consistency of the accounts with the rules of budget management. In the framework of the internal control system, we evaluated the internal control environment of the audited entities.

**Audit coverage**

The audit covered 100% of the revenues and expenditures of the central subsystem. We evaluated errors detected during reliability audits affecting the reliability of the data contained in the final accounts bill and, by comparing the results to the materiality threshold, we projected them onto the entire population.



The components of the revenues and expenditures of the central subsystem in 2014 are shown on Figure 19.


Figure 19



### 3.2. Audit of the National Tax and Customs Administration (NAV)



*In the framework of the “auditing the auditors’ strategic area, we evaluated the regularity of the NAV’s foreclosure and arrears management, the performance of taxation tasks and audit assignments among priority taxpayers, the set-up and operation of the internal control system and the operation of the EUROFISC system.*

<p>Disclosure serial no. and link </p> <p>Press summary </p>	<p><b>15044</b></p> <p><b>15044-O</b></p>	<p><b>Findings</b></p> <p>The SAO report containing the findings of the audit of the National Tax and Customs Administration is available by clicking on the highlighted disclosure serial number or can be downloaded from the SAO website (<a href="http://www.asz.hu">www.asz.hu</a>). The summary prepared for the press (also containing the main findings) is available at the link marked “O”.</p> <p><b>Conclusions</b></p> <p>The standardisation of the current account systems used in different taxation and customs fields had not been implemented, which calls into question the renewal of the organisation. Due to a delay in legal compliance, there is a risk that the employees of different organisational units considered legal provisions differently or not at all. NAV failed to develop a uniform, transparent and up-to-date arrears management system. In the lack of uniform procedures, different organisational units had freedom of choice and thus performed their tasks differently.</p> <p><b>Recommendations</b></p> <p>Based on the findings of the audit, in order to eliminate the deficiencies the SAO formulated recommendations for the consideration of NAV’s President in relation to the internal control system, arrears management, activities concerning priority taxpayers and the IT systems. In response to the recommendations, the audited entity prepared an action plan, which was acknowledged by the SAO.</p>
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### 3.3. Audit of the use of exemptions of taxes and social contributions

*In the period of 2009–2013, exemptions of taxes and social contributions granted under the START Programme and the Job Protection Action Plan exceeded HUF 350 billion. Development tax benefits granted for employment purposes amounted to almost HUF 150 billion. We evaluated the regularity of the system of exemptions of taxes and social contributions for employment purposes for the period between 1 January 2009 and 31 December 2013. The audit covered the affected activities of the Ministry for National Economy (NGM), the National Tax and Customs Administration (NAV) and five local governments.*

<p>Disclosure serial no. and link </p> <p>Press summary </p>	<p><b>15091</b></p> <p><b>15091-O</b></p>	<p><b>Findings</b></p> <p>The SAO report containing the findings of the audit of the use of exemptions of taxes and social contributions is available by clicking on the highlighted disclosure serial number or can be downloaded from the SAO website (<a href="http://www.asz.hu">www.asz.hu</a>). The summary prepared for the press (also containing the main findings) is available at the link marked “O”.</p>
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### Conclusions

Increasing employment has been a priority objective of the government in recent years, and it was encouraged, in part, by granting exemptions from taxes and social contributions. The use of these exemptions was not transparent and lacked adequate control; there were no regulations requiring the tax authority to verify the legality of the use of exemptions from social security contributions and social contribution taxes for employment purposes. The data content of local business tax returns at audited local governments did not ensure the verifiability of the staff number requirement serving as a condition for the tax exemption of the employer for the previous period.

### Recommendations

Based on the audit findings, we issued a number of recommendations to the Minister for National Economy to eliminate the deficiencies of the control environment required for the regular performance of activities related to tax and social contribution exemptions for employment purposes, and to examine and document reports on the use of the development tax benefit. We recommended to the President of NAV to audit, in compliance with regulations, the use of development tax benefits. In response to the recommendations, the audited organisations prepared action plans, which were acknowledged by the SAO.

## 3.4. Audit of the National Deposit Insurance Fund (OBA)

*Covering the period between 1 January 2011 and 31 December 2013, the objective of the audit was to ascertain the regularity of the Fund's operation and financial management and its compliance with legal provisions in performing its tasks. We evaluated the internal policies of the Fund, the legal compliance of the collection of membership fees, the regularity of financial management and the Fund's indemnity payment activity and the utilisation of previous SAO findings.*

Disclosure serial  
no. and link

**15024**

Press summary

**15024-O**

### Findings

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

### Conclusions

The Fund performs a public function; its activity serves public interests, primarily funded by the membership fees paid by member institutions rather than by budgetary resources. Given the recent credit institution defaults, the protection of savings and the feasibility of the Fund's indemnification obligation have spurred increased social interest. The Fund's task is to pay indemnification to deposit holders should the insured deposits placed with member institutions freeze up, and to inform deposit holders with respect to the indemnification. As such, the Fund plays an important role in corporate social responsibility.




### Recommendations

We formulated recommendations for the Chairman of the Board to recognise unpaid principal and interest amounts due to deposit holders on the balance sheet and to maintain accurate analytical records on the unpaid principal and interest amounts due to deposit holders. In response to the recommendations, the audited entity prepared an action plan, which was acknowledged by the SAO.


## 3.5. The audit of equilibrium improving measures

*The audit entitled ‘The audit of certain equilibrium improving measures and their impact on the execution of the budget’ was intended to evaluate, in the context of a systems audit, the role and features of governmental measures aimed at improving the balance between 2007 and 2013, as well as pre-decision activities and execution. The audit assessed measures aimed at improving the balance of public finances, as well as revenue increasing and expenditure reducing measures set forth in budget acts, regulations and government decrees in terms of their impact on the execution of budget, with special regard to public deficit, public debt and the affected institutions of the central subsystem.*

Disclosure serial  
no. and link 

15031

### Findings

Press summary 

15031-O

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

### Conclusions

The audit found that measures taken between 2007 and 2013 made an increasing contribution to improving the fiscal balance. The conditions of fiscal management became more predictable after the fact that instead of subsequent pledging, the formation of advance reserves gained an increasingly important role in maintaining the deficit target by 2012–2013. The audit detected a number of deficiencies in respect of the preliminary impact assessment of the measures.


### Recommendations

The SAO addressed a recommendation to the Minister for National Economy to the effect that impact assessments and impact assessment forms should be prepared, in line with regulations, before putting forward non-technical draft legislation prepared by the Ministry for National Economy. In response to the recommendation, the audited entity prepared an action plan, which was acknowledged by the SAO.




### 3.6. Audit of the system of the utilisation of EU funds

*The SAO evaluated the activities of the National Development Agency (NFÜ) and the Intermediate Bodies (IB) related to the utilisation of EU funds for the period of 2007–2013. The SAO found that the regulatory environment developed for the programming period and the institutional system of the NFÜ set up in 2006 had, overall, established the conditions required for the regular and effective utilisation of EU funds. The NFÜ managed EU funds regularly; however, despite the consolidation of the institutional system, the announcements of calls for proposal were delayed and payments commenced with delays.*

Disclosure serial  
no. and link 

**15037**

#### Findings

Press summary 

**15037-O**

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

#### Conclusions

The granting, disbursement, accounting and utilisation of European Union funds granted for the purpose of improving flexible labour market arrangements and encouraging atypical employment forms were regular in the review period.

#### Recommendations

The SAO formulated a recommendation for the Minister heading the Prime Minister's Office, highlighting the need to monitor, on a continuous basis, the payments of the grants in order to ensure the full absorption of the EU funds available. In response to the recommendation, the audited entity prepared an action plan, which was acknowledged by the SAO.



## 4. Audits affecting organisations influencing developments in the public debt ratio, public deficit and the competitiveness of the country – Specific budgetary institutions of the central subsystem

*Spending nearly a quarter of public funds, the budgetary institutions of the central subsystem of public finances exert a significant impact on the maintenance of the budget balance and on the quality of the management of public property. By performing public functions and providing public services, the institutions concerned are in contact with a broad range of citizens. During the audit of the central institutions, the SAO evaluated the regularity of the set-up and operation of the given organisation's internal control system, the availability of the conditions required for ensuring the regularity, economy, efficiency and effectiveness of the management of resources, and the organisation's compliance with financial and property management regulations.*

### 4.1. Audit of the National Food Chain Safety Office

*In the context of auditing the financial and property management of the central subsystem, the State Audit Office conducted an audit at the National Food Chain Safety Office (NÉBIH).*

Disclosure serial  
no. and link

**15122**

#### Findings

Press summary

**15122-O**

The SAO report containing the findings of the audit of the National Food Chain Safety Office is available by clicking on the highlighted disclosure serial number or can be downloaded from the SAO website ([www.asz.hu](http://www.asz.hu)). The summary prepared for the press (also containing the main findings) is available at the link marked "O".

#### Conclusions

In the audited period of 2008–2013, the set-up and operation of the internal control system of NÉBIH and its financial and property management were, with minor deficiencies, regular.

#### Recommendations



The SAO's recommendation to the Minister of Agriculture highlighted the need to perform audits aimed at the efficiency of resource management. The SAO formulated seven proposals for the President of NÉBIH in relation to the control environment, risk management, the maintenance of internal audit records, the legally compliant exercise of financial management powers, the transparency of leased assets and the enforcement of performance requirements in the organisation's activity. In response to the recommendations, the audited organisations prepared action plans, which were acknowledged by the SAO.







## 4.2. Audit of the National Labour Office

Within the framework of the audit of specific institutions of the central subsystem, the SAO commenced the audit of the National Labour Office (NMH) in 2014. Following a series of transformations, the NMH was terminated without a legal successor on 31 December 2014. In the lack of the required documents, the audit objective and the focal issues defined for the audit programme – compliance of the National Labour Office with legal provisions and internal policies regarding financial and property management – could not be audited and the execution of the audit failed. Pursuant to Article 28 (5) and Article 33 (3)a) of Act LXVI of 2011 on the State Audit Office of Hungary and to Section 5 (2) of Act CLXIII of 2011 on the Prosecution Service, the SAO submitted an indication to the competent authority for failure to meet the obligation to cooperate.

Disclosure serial no. and link 	<a href="#">15092</a>	<b>Findings</b> The SAO report containing the findings of the audit of the National Labour Office is available by clicking on the highlighted disclosure serial number or can be downloaded from the SAO website ( <a href="http://www.asz.hu">www.asz.hu</a> ). The summary prepared for the press (also containing the main findings) is available at the link marked "O".
Press summary 	<a href="#">15092-O</a>	


## 4.3. Audit of the National Information Infrastructure Development Institute

The National Information Infrastructure Development Institute (NIIFI) is the central institution responsible for development and operational tasks related to the National Information Infrastructure Development Programme. It plays a critical role in the development and application of the latest network technologies in Hungary and in the enhancement of the IT infrastructure nationwide. The task structure of the NIIFI changed three times in the audited period. Pursuant to the Budget Act of 2013, the expenditure appropriations for NIIFI amounted the HUF 1,549.2 million, revenue appropriations for institutional operations amounted to HUF 713.3 million, and funding from the central budget was defined as HUF 835.9 million.

Disclosure serial no. and link 	<a href="#">15124</a>	<b>Findings</b> The SAO report containing the findings of the audit of the National Information Infrastructure Development Institute is available by clicking on the highlighted disclosure serial number or can be downloaded from the SAO website ( <a href="http://www.asz.hu">www.asz.hu</a> ). The summary prepared for the press (also containing the main findings) is available at the link marked "O".
Press summary 	<a href="#">15124-O</a>	

Based on the evaluation:

<b>Compliant</b> 85–100%		<b>Partly compliant</b> 70–84%
<b>Non-compliant</b> 0–69%		

**Conclusions**

Among the elements of the internal control system, control activity and the monitoring system were partly regular, while the set-up and operation of the control environment, the risk management system and the information technology and communications system operated regularly overall in the audited period, ensuring the regularity of task performance and the use of public funds. As regards financial management, the operation of the key control mechanisms related to the utilisation of the expenditure appropriations was only partly regular between 2008 and 2011, which indicates deficiencies in process-integrated and managerial control. The SAO did not detect any accounting irregularities.

The lack of property management related policies and the irregularities found in the execution of stocktaking and the data content of the inventories pose a risk to responsible and regular management of public property.

### Recommendations

The SAO's proposals to the Director General of the NIIFI included compliance with legal provisions regarding the disclosure obligation, fringe benefits and the operation of controls, the regulation of payments not requiring commitment and the set-up and enforcement of the requirements regarding efficiency, effectiveness and economy. Moreover, the SAO formulated recommendations to the Minister of National Development highlighting the need to set-up requirements pertaining to the regular and efficient management of resources and to investigate and address the labour law liability detected. In response to the recommendations, the audited organisations prepared action plans, which were acknowledged by the SAO.

## 4.4. Audit of the Central Office for Administrative and Electronic Public Services

*The Central Office for Administrative and Electronic Public Services (KEKKH) is the central office responsible for data administration and administrative tasks related to electronic public services and specific central administrative record systems and for administrative tasks related to frequency management for non-civilian purposes.*

Disclosure serial  
no. and link

**15137**

### Findings

Press summary

**15137-O**

The SAO report containing the findings of the audit of the Central Office for Administrative and Electronic Public Services is available by clicking on the highlighted disclosure serial number or can be downloaded from the SAO website ([www.asz.hu](http://www.asz.hu)). The summary prepared for the press (also containing the main findings) is available at the link marked "O".

### Conclusions

Since the KEKKH did not have Operational and Organisational Rules in 2008, there were no regulations for the definition and the segregation of duties. While only the risk management system was missing throughout the entire duration of the audited period, the audit detected deficiencies in additional pillars of the internal control system.

According to the findings related to the audit of financial management, the operation of key controls was inadequate at the beginning of the audited period; subsequently, however, the organisation exercised financial management powers adequately. The amendments of the appropriations complied with the requirements. The audit detected irregularities in the analytical records of appropriation residue as the amount did not correspond to the approved appropriation residue amount. Deficiencies and irregularities detected during the audit of the record system and of the key controls point to the existence of risks regarding the regular use of public funds. In the area of property management, stocktaking and valuation did not comply with regulations; impairment was not recognised in accordance with legal provisions. Moreover, the prime cost calculation policy was inadequate; the calculation and recording of the



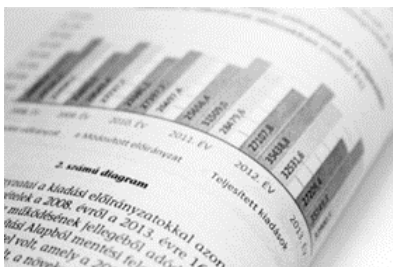
value of assets and liabilities only partly complied with legal provisions. The irregularities detected posed a threat to the regularity of property management.

### Recommendations

The audit proposed a number of recommendations to the President of the KEKKH regarding the set-up and operation of an adequate control environment and risk management system, the definition and enforcement of the requirements of efficiency, effectiveness and economy in relation to the activity of the Office, and compliance with legal provisions during the utilisation of appropriations and the valuation of balance sheet items. Moreover, the SAO formulated recommendations to the Minister of the Interior highlighting the need to set-up and enforce requirements in relation to the regular and efficient management of resources. In response to the recommendations, the audited organisations prepared action plans, which were acknowledged by the SAO.

## 4.5. Audit of the financial management and property management of specific institutions of the central subsystem

*During the audit of the financial management and property management of specific institutions of the central subsystem, the SAO audited the financial management of the Institute of Geodesy, Cartography and Remote Sensing (hereinafter: FÖMI), of the Coordination Centre for Transport Development (hereinafter: KKK) and of the National Ambulance Service (hereinafter: OMSz). The type of the audit was a compliance audit supplemented by a performance audit. Specific institutions of the central subsystem represent a significant weight in the use of public funds and the management of state property. It was specifically with that in mind that the main goal of the audits was to ascertain whether the operation and financial management of the institutions concerned complied with legal provisions in the period of 2008–2013.*



### Findings

The SAO reports containing the findings of the audits of the 3 institutions are available by clicking on the institution's name in Section 2 of Annex 1 or can be downloaded from the SAO website ([www.asz.hu](http://www.asz.hu)).

### Conclusions

The managing bodies failed to set up the necessary requirements for the performance of public functions and for the efficient management of resources; consequently, the audited organisations did not determine any measurable criteria for efficiency, effectiveness and economy criteria for their activities and objectives.

Deficiencies arising in budgetary planning and appropriation management gave rise to liquidity problems during the year.

### Recommendations

The SAO formulated a proposal to the managing bodies regarding the enforcement, accountability and control of the requirements pertaining to the efficient management of resources. Recommendations have been made to the heads of the FÖMI, the KKK and the OMSz for improving the regularity and sustainability of the affected organisations.

For the most part, the recommendations of the SAO were aimed at the deficiencies affecting the internal control system, and called for the enforcement of the adequate operation of the control activity and the control environment and for the efficient management of the resources available. In response to the recommendations, the audited organisations prepared action plans, which were acknowledged by the SAO.

## 5. Audits affecting organisations influencing developments in the public debt ratio, public deficit and the competitiveness of the country – Education, research and development, innovation

*The SAO believes that knowledge creation and knowledge sharing play a critical role in Hungary's competitiveness. Therefore, higher education, research and innovation were among the focal areas of its audits. The compliance audits of the financial management of the universities and research institutes operating in these areas detected numerous deficiencies affecting the internal control system and the financial and property management of the organisations. Through the implementation of the action plans drawn up on the basis of our findings – comprising hundreds of measures altogether – the financial management of the organisations concerned will become more balanced and more transparent. This will improve the financial conditions of their professional activities which, in turn, will indirectly contribute to rendering their knowledge creation and knowledge sharing activity more effective.*

### 5.1. Audit of higher education institutions

*In consideration of the social and economic role of higher education, its substantial use of public funds and the legislative changes affecting its institutional system, the State Audit Office conducted thematic audits covering all public higher education institutions. With regard to public higher education institutions, we evaluated the regularity of their financial and property management, the operation of their internal control systems and their activities of as operators. As regards higher education institutions operated by churches, we audited the regularity of the utilisation of state subsidies granted for non-religious purposes.*



Link to study

T/381

#### Findings

The SAO reports containing the findings of the audits of the 21 higher education institutions are available by clicking on the institution's name in Section 1 of Annex 1 or can be downloaded from the SAO website ([www.asz.hu](http://www.asz.hu)).

#### Study entitled 'An analysis of the financial position and financial standing of public higher education institutions'

For better utilisation of its audit findings, the SAO has prepared a summary study, which is available by clicking on the highlighted disclosure serial number or can be downloaded from the SAO website ([www.asz.hu](http://www.asz.hu)).

## Conclusions

The audit period was witness to considerable economic, social and legislative changes. Although this would have called for novel operational methods and a complete overhaul of financial management, management, regulatory and control mechanisms, the audits found that most public higher education institutions had not adjusted to the changes properly.

The audits pointed out that the managing bodies of the higher education institutions failed to fulfil the role expected of them in the area of financial management. Deficiencies and irregularities detected in the set-up and operation of internal controls did not permit the regular and efficient use of public funds at the institutions concerned.

## Recommendations

We formulated recommendations for the Minister responsible for higher education and for the heads of the institutions concerned in the interest of improving the regularity of the institutions' operation. The recommendations were aimed at eliminating and correcting the irregularities and deficiencies detected by the audits in the internal control system and in the financial and property management of the institutions. We submitted a proposal to the operator to ensure that steps were taken to ensure the sustainability of specific institutions. In response to the recommendations, the audited organisations prepared action plans, which were acknowledged by the SAO.

## 5.2. Audit of specific research institutes of the Hungarian Academy of Sciences

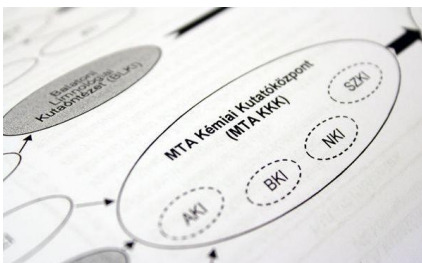
*The purpose of the SAO's audit of the Hungarian Academy of Sciences (MTA) and six of its research centres and research institutes was to ascertain the regularity of the organisations' operation between 2011 and 2013 and the regularity of the restructuring of the research network in 2011.*

Disclosure serial  
no. and link

[15038](#)

Press summary

[15038-O](#)



## Findings

The SAO report containing the findings of the audit of specific research institutes of the Hungarian Academy of Sciences is available by clicking on the highlighted disclosure serial number or can be downloaded from the SAO website ([www.asz.hu](http://www.asz.hu)). The summary prepared for the press (also containing the main findings) is available at the link marked "O".

## Conclusions

The SAO ascertained the regularity of the restructuring; however, upon auditing the operation of the organisations, it found deficiencies concerning the internal control systems, stocktaking and the property lease agreements.

## Recommendations

We made proposals to the heads of the audited research centres of the MTA to rectify the detected deficiencies affecting the set-up and operation of the internal control system and – in two cases – to conclude lease agreements for movable property.

Recommendations and findings with respect to the correction of the deficiencies detected during the audit contributed to facilitating the regularity of the operation of academic workshops and the transparency and traceability of public funds used for research. In addition, they encouraged efficiency and economy in the research institutes' use of public funds and facilitated the utilisation of scientific achievements in the interest of public good. In response to the recommendations, the audited organisations prepared action plans, which were acknowledged by the SAO.

### 5.3. Audit of the Hungarian Medical Chamber

*The national tasks of professional medical chambers are performed by the Hungarian Medical Chamber (MOK), the Hungarian Chamber of Pharmacists and the Chamber of Hungarian Health Professionals. Operating in a dual structure and on local government principles, the MOK pursues its activities through regional organisations, national bodies and officials. The SAO audited the regularity of the financial management and task performance of 21 Regional Organisations and the National Office. The objective of the audit was to ascertain the MOK's compliance with relevant legal provisions during its operation and the regular use of the budgetary subsidies granted for the performance of its tasks.*

Disclosure serial  
no. and link

**15080**

#### Findings

Press summary

**15080-O**

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

#### Conclusions

The SAO found that the regular operation and financial management of the MOK was not ensured in the audited period; the audit detected numerous irregularities and deficiencies in the financial management of the MOK and in its utilisation of the budgetary subsidies financing its activities. Deficiencies in regulations pose a threat to the operation of the organisation, while irregularities explored in the process of its financial management jeopardise the regularity of the use of public funds.

#### Recommendations


We proposed numerous recommendations to the President of the MOK for the management of the deficiencies and irregularities detected. Among other items, we called attention to the enforcement of internal policies and legal regulations pertaining to the handling of personal data and to the need to set up a transparent record system. To ensure the regularity of task performance, we recommended that the MOK take steps to ensure the legal compliance of the data disclosed and adherence to the accounting rules of members' credit, to investigate the labour law liability regarding the deficiencies explored, to ensure compliance with the provisions of the subsidy contract during the utilisation of budgetary subsidies, and to specify detailed rules concerning the operation of the Regional Organisations, as well as the task and responsibility allocation between them.




We recommended to the head of the MOK's National Office and to the presidents of the Regional Organisations to make arrangements regarding the preparation of the documents regulating operation, and to execute the end-of-year inventory taking as per the Accounting Act. We proposed to the head of the National Office to present the annual report of the MOK as a whole to the General Meeting and to lay down the amendments of employment contracts in writing. In response to the recommendations, the audited organisations prepared action plans, which were acknowledged by the SAO.

## 5.4. Audit of the Governmental Information Technology Development Agency

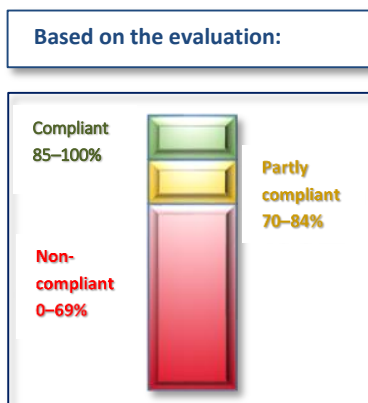
*The Governmental Information Technology Development Agency (KIFÜ) (formerly the IT Services Centre for Ministry of Finance) was responsible for ensuring the infrastructural feasibility of the IT projects of the government. In the audited period, the scope of its responsibilities expanded continuously; it was headed by three different presidents, and the budgeted value of the projects implemented with its participation amounted to HUF 47 billion during the five years of the audited period of 2009–2013.*

Disclosure serial no. and link  **15013**

Press summary  **15013-O**

### Findings

The SAO report containing the findings of the audit of the Governmental Information Technology Development Agency is available by clicking on the highlighted disclosure serial number or can be downloaded from the SAO website ([www.asz.hu](http://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 of the KIFÜ was only partially compliant with legal provisions in the audited period, which means that the KIFÜ did not fully ensure the regularity of task performance and of the use of public funds. With minor deficiencies, the institution performed its tasks in accordance with the provisions of the deed of foundation and the relevant legislation; the financial stability for the performance of its tasks was secured. Its property management in the audited period was regular along with its stocktaking practice; thus the organisation contributed to the efficiency and economy of the management of public property, and to the preservation and accumulation of public property.


### Recommendations

The SAO formulated recommendations regarding the audit findings to the Minister of National Development highlighting the need to set-up requirements pertaining to the institutional performance of public functions and to the regular and efficient management of the resources available to the institution. We recommended to the President of the KIFÜ to take steps to eliminate the deficiencies detected by the audit in the areas of the control system – including the control environment –, the risk management system, the monitoring system and the ITC system, to commence the procedure investigating the labour law liability with respect to the irregularities detected and, based on the result, to take the necessary measures.

In response to the recommendations, the audited organisations prepared action plans, which were acknowledged by the SAO.


## 5.5. Audit of specific agrarian research institutes and genetic conservation institutions of the Ministry of Rural Development

*The audit of the financial management of specific agrarian research institutes and genetic conservation institutions of the Ministry of Rural Development was intended to ascertain that the set-up and operation of their respective internal control systems, their financial and property management and the preparatory work for and implementation of their restructuring was in line with regulations in the audited period. The audit also covered the task performance of the managing body of the specific institutions.*

Disclosure serial  
no. and link 

**15149**

### Findings

Press summary 

**15149-O**

The SAO report containing the findings of the audit of the five agrarian research institutes and genetic conservation institutions is available by clicking on the highlighted disclosure serial number or can be downloaded from the SAO website ([www.asz.hu](http://www.asz.hu)). The summary prepared for the press (also containing the main findings) is available at the link marked "O".



### Conclusions

The SAO's audit affected five agrarian research institutes and genetic conservation institutions (Research Institute for Fisheries, Aquaculture and Irrigation, Central Environmental and Food Science Institute, Agricultural Biotechnology Institute, Research Institute for Viticulture and Oenology, Tokaj, Centre for Plant Diversity) and, by association, the Ministry of Agriculture.

Numerous irregularities have been found by the SAO during its audit of the agrarian research institutes and genetic conservation institutions in the audit period of 2008–2013. Apart from the deficiencies detected in financial and property management, the SAO also found that the internal control systems were not set up and operated in compliance with the relevant regulations by the heads of the audited institutions.

### Recommendations

The SAO submitted recommendations to the Minister of Agriculture and to the Director Generals and Directors of the audited institutions and their legal successors.

The audit contributed to the objective presentation of the management of public funds in the areas of agrarian research and genetic conservation. In response to the recommendations, the audited organisations prepared action plans, which were acknowledged by the SAO.



## 5.6. Audit of the National Innovation Office

*By improving the regularity of the financial and property management of the National Innovation Office (NIH), the audit fostered the transparency and sound management of public finances. As a result, we gained a comprehensive view of the deficiencies – as well as good practices – observed in the financial management of the NIH. Established by the Government of the Hungarian Republic on 1 January 2004, the NIH is the central office in charge of research and development and technological innovation. As of 1 January 2015, the general and single successor of the NIH is the National Research, Development and Innovation Office (NKFIH), established through the merger of the National Innovation Office and the Hungarian Scientific Research Fund.*

Disclosure serial no. and link [15073](#) **Findings**

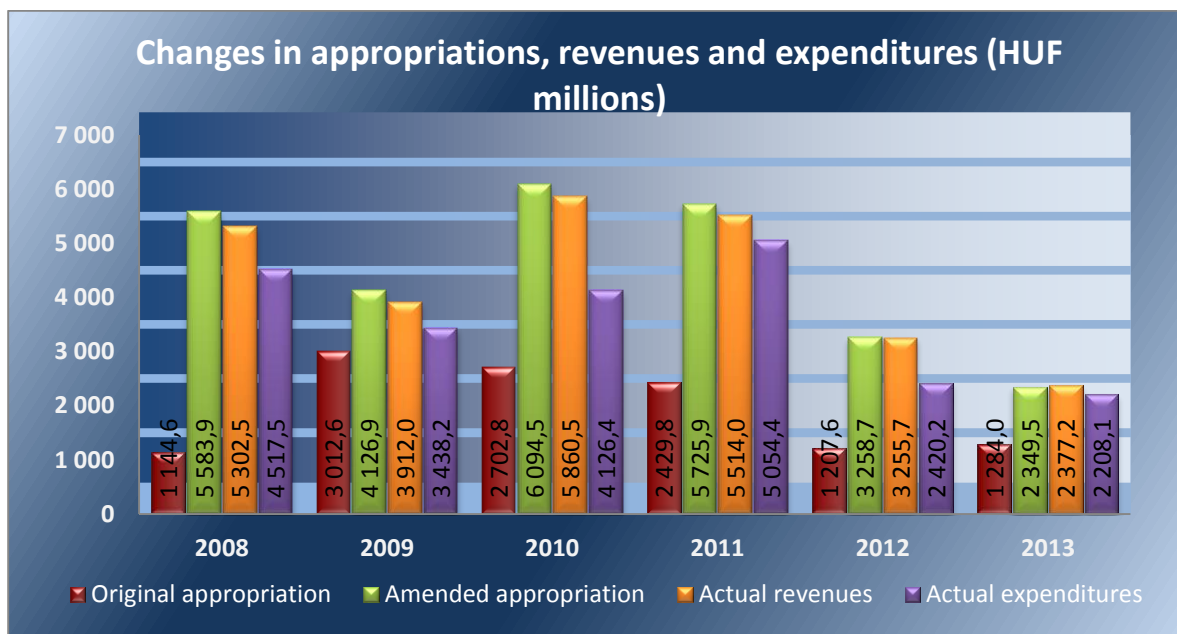
Press summary [15073-O](#)

The SAO report containing the findings of the audit of the National Innovation Office is available by clicking on the highlighted disclosure serial number or can be downloaded from the SAO website ([www.asz.hu](http://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 of the NIH was partly compliant, overall, which poses a risk to the regularity of the use of public funds, task performance and property management. Changes in appropriations, revenues and expenditures are presented in Figure 20.

Figure 20



The operation of key controls proved inadequate during the utilisation of the expenditure appropriations and the performance of the revenue appropriations, which jeopardised the regularity of financial management. The property management of the institution was not regular during the audited period.

The detected deficiencies – inadequate operation of internal controls with respect to revenues from asset utilisation; the balance sheet value of the assets taken over for operations did not comply with regulations – jeopardised the regularity, economy, efficiency and effectiveness of the management of national assets.

#### **Recommendations**

The audit formulated recommendations for the Minister of National Development regarding the need to establish requirements for the regular and efficient management of resources; for the President of the National Research, Development and Innovation Office (NKFIH), as the legal successor of the NIH, to set up and operate a legally compliant control system, to compile an inventory in compliance with legal provisions and to define and enforce efficiency, effectiveness and economy requirements for the activity of the Office.


In response to the recommendations, the audited organisations prepared action plans, which were acknowledged by the SAO.

## 6. Audits affecting organisations influencing developments in the public debt ratio, public deficit and the competitiveness of the country – Specific institutions of the subsystem of local governments


*Bearing in mind transparency and the integrity approach, as part of its medium-term audit concept and in accordance with its strategy, the SAO evaluated the regularity of the financial management of local governments, the regular performance of their property management activities and the regularity of the set-up and operation of the internal control systems of local governments and minority self-governments.*

### 6.1. Audit of the distribution of resources

*Fulfilling its obligation set forth in Article 5 (2)–(3) of the SAO Act, the SAO reviewed its decree on the distribution of the resources of the Municipality of Budapest for 2014. The audit evaluated the regularity of the preparatory process of the decree, the substantiation of the budgeted revenues from local business taxes and the budgeted expenditures related to taxation, and the utilisation of the recommendations of the previous SAO audit for the period between 1 October 2013 and 31 August 2014.*

Disclosure serial  
no. and link 

**15023**

Press summary 

**15023-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](http://www.asz.hu)). The summary prepared for the press (also containing the main findings) is available at the link marked "O".

#### Conclusions

The preparatory process and the formulation of the resource distribution decree of the Municipality of Budapest complied with legal provisions. According to the audit findings, the regularity of the process of drafting the decree was ensured and the budgeted revenue and expenditure figures were substantiated. The allocation of revenues and expenditures in the resource distribution decree was in line with the ratios prescribed by legislation.

The audit did not find any adjustment items to be reflected in the resource distribution decree of 2015.

#### Recommendations

Based on our findings, we recommended that the internal policies on the preparation of the resource distribution decree of the Municipality of Budapest be updated to ensure that the performance of the tasks related to the preparatory process and the formulation of the draft decree are distributed between the individual organisational units based on actually required participation obligations.

#### What is the audit of the distribution of resources?

Pursuant 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 in accordance with the Resource Distribution Act, with the amount of said difference in the year following the year in which the review was completed.

We also offered a recommendation regarding the range of tax revenues constituting a part of the resource distribution under the resource distribution decree of the Municipality of Budapest, which should be defined in such a way that it includes all revenues from fines and penalties imposed in relation to the local business tax. In response to the recommendations, the audited entity prepared an action plan, which was acknowledged by the SAO.

## 6.2. The audit of the internal control system of local governments

*In 2015, a total of 18 SAO reports were published on this subject. 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, and to improve their operational compliance. The SAO conducted its audit on the set-up and operation of the internal control systems of local governments in the context of the tasks defined for the SAO in Article 5 (6) of the SAO Act.*

### Findings

The SAO reports containing the findings of the audits of the 18 local governments are available by clicking on the settlement's name in Section 3 of Annex 1 or can be downloaded from the SAO website ([www.asz.hu](http://www.asz.hu)). Overall, the set-up and operation of the internal control system was compliant at eleven local governments, partly compliant in four cases, and non-compliant in three cases. The set-up and operation of internal audit was compliant with legal provisions in six cases, partly compliant in four cases, and non-compliant at eight audited entities.

Regarding the specific elements of the internal control system, the most frequently seen deficiencies included a failure to define the requirements for efficient resource management, a failure to include in the Operational and Organisational Rules the list of personnel subject to the asset declaration obligation, and a complete or partial failure to set up a risk management and monitoring system.

Figure 21 and Figure 22 indicate the compliance of the set-up and operation of the internal control system and internal audit in the case of the 18 audited local governments.

Figure 21

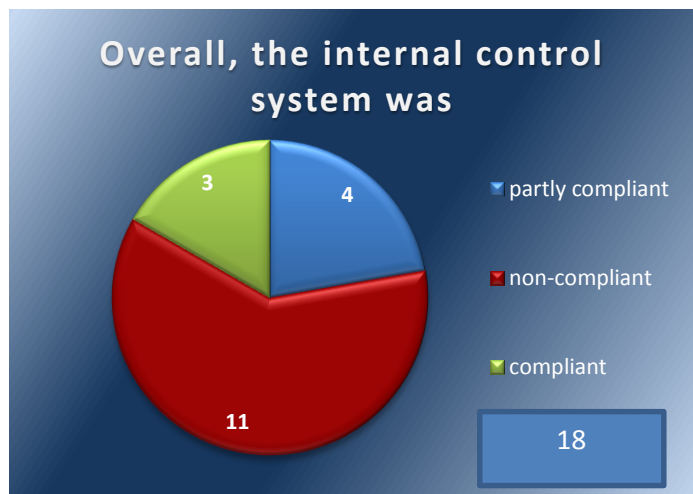
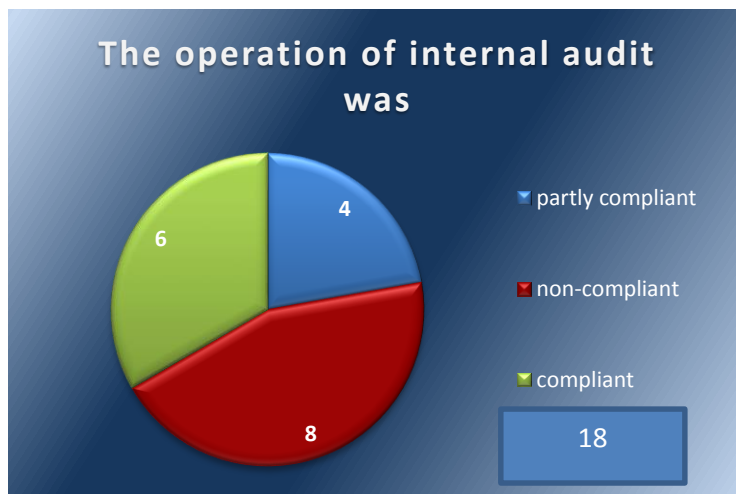
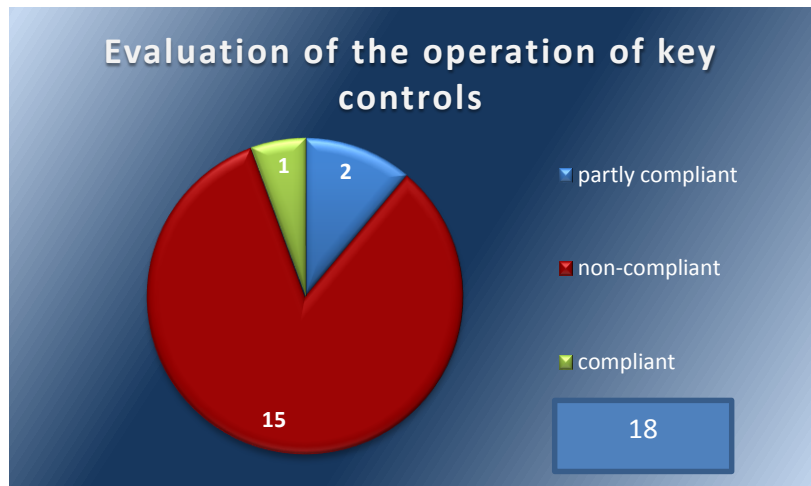


Figure 22



Frequent deficiencies concerning the set-up and operation of internal audit included failure to include the mandatory substantive elements in the annual audit plan, failure to keep a record of the findings and suggestions contained in the internal audit reports, as well as the relevant action plans and the monitoring of their implementation.

Figure 23



**OUR PERFORMANCE IN NUMBERS WITH RESPECT TO THE AUDIT OF LOCAL GOVERNMENTS WITH REGARD TO THE INTERNAL CONTROL SYSTEM**

<b>18</b>	local governments audited
<b>495</b>	recommendations based on findings with obligations to take action
<b>43</b>	recommendations for mayors
<b>452</b>	recommendations for town clerks

The evaluation of the operation of key controls are shown in Figure 23. Except for one case, the operation of key controls was only partly compliant or non-compliant at the local governments audited. A typical deficiency in the operation of key controls occurred where performance was certified and endorsed by unauthorised persons or not at all or, when the person endorsing performance did not indicate to the issuer of the invoice that the prescribed verifications did not take place in the previous administrative process.

**Conclusions**

During the audit of the internal control system, we took into consideration the audit findings of audits conducted at more than 100 local governments in recent years. The large number is significant in that the audit selection was risk-based rather than representative; consequently, it was not possible to draw general conclusions either in the past few years or on the basis of the reports issued in 2015. At the same time, the SAO’s audits revealed numerous typical errors, which have since been disclosed to the stakeholders either in the context of ‘good practices’ at various forums or in written information documents. As in previous years, in 2015 the audited entities were selected on the basis of the SAO’s risk assessment, and as such, compared to the previous audit findings, near identical or similar results were found in respect of the regularity of the set-up of the internal control system and of the operation of key controls and internal audit.

**Recommendations**

As a result of the audits of the internal control system conducted in 2015, the SAO communicated to mayors and town clerks a total of 495 findings requiring action at 18 local governments.

Of this, the SAO issued a total of 43 recommendations to mayors, 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 in the set-up and operation of the internal control system. The SAO communicated recommendations to town clerks based on a total of 452 findings requiring action, concerning the adequate supplementation and update of the regulation and operation of certain areas of the internal control system to ensure legal compliance, and the need to ensure the operation of key controls and the internal audit in accordance with legal provisions. In response to the recommendations, the audited organisations prepared action plans, which were acknowledged by the SAO.

### 6.3. Audit of the regularity of the financial and property management of local governments

*In the context of the audits, the SAO evaluated whether the financial management of local governments complied with legal provisions and the provisions of internal policies and whether the financial equilibrium and the regularity of property management were ensured at the local government. One of the objectives of the audit was to ascertain that decisions resulting in a change in assets were regular, proprietary rights were properly exercised and transparency and integrity were enforced in the local government's financial management.*



#### Findings

The SAO reports containing the findings of the audits of the 7 local governments are available by clicking on the settlement's name in Section 4 of Annex 1 or can be downloaded from the SAO website ([www.asz.hu](http://www.asz.hu)).

#### Conclusions

It was a typical case at all 7 local governments that the rules of financial management were missing or were not updated comprehensively. Internal audit failed to ascertain the efficient management of resources. During the process of budgeting and on the occasion of the annual budget reporting, the audited entities failed to comply fully with legal provisions. Priority expenditure appropriations were exceeded on several occasions.

Despite the revenue increasing and expenditure cutting measures taken by the local governments within their own competence and the positive effect of the changes in task performance, the financial equilibrium of the local governments could not be ensured. Dependence on supplementary assistance and the number of accounts payable and overdue by more than 60 days pointed to a lack of financial stability. The audited entities failed to assess the risks affecting the financial equilibrium and to take efforts to mitigate them.

The set-up of the property management framework was only partly adequate. Upon auditing the asset records, the decisions resulting in changes in assets and the implementation thereof, the SAO detected numerous ad-hoc irregularities at the audited local governments.

### Recommendations

The SAO formulated a total of 98 recommendations to the 7 audited local governments with obligations to take action. We issued the recommendation to facilitate the regularity and conformity of financial and property management and the achievement and long-term maintenance of financial equilibrium. We also recommended the investigation of the reasons behind the deficiencies detected by the SAO. In response to the recommendations, the audited entities prepared action plans. The conclusion of some of these plans is in progress.

## 6.4. Regularity audit of the property management of local governments

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*During the audits of the property management activity of local governments, we evaluated the level of regulation of the property management activity of local governments and the regularity of decisions resulting in changes in assets. In 2015, we published 3 reports following the audits conducted in 3 districts in Budapest.*



### Findings

The SAO reports containing the findings of the audits of the 3 local governments are available by clicking on the settlement's name in Section 5 of Annex 1 or can be downloaded from the SAO website ([www.asz.hu](http://www.asz.hu)).

### Conclusions

The level of regulation of the property management activity essentially complied with the relevant legal provisions. Budapest district local governments prepared their statement of assets; however, the statements generally did not state assets fully written off or any liabilities with a value of 0 on the balance sheet.

The records of the land registry and the local government's real estate cadastre did not fully match. We observed discrepancies at asset inventories primarily in the case of assets taken over for operation or custody, given that the stocktaking was not performed by the operator itself but typically by the local governments themselves, through reconciliation.

Although the local governments regulated the exercise of financial management powers, in many cases the regulations were not enforced. It was a typical deficiency that there was no countersigning prior to the undertaking of commitments or issuers of the professional performance certificates had no authorisation.

The regularity of property management was supported by internal audit. Their audits affected the areas of property management, and the deficiencies detected were generally eliminated.

### Recommendations

Based on the audit findings, we formulated recommendations to eliminate the regulatory deficiencies detected and the irregular practice. In response to the recommendations, the audited organisations prepared action plans, which were acknowledged by the SAO.

## 6.5. The audit of local minority self-governments

*In continuing the audit of local minority self-governments, the goal of the SAO is to support the transparency and regular operation of the area, and thereby to strengthen the social integration of minorities. The continuation of the audits was justified by the magnitude of the deficiencies identified in the financial management of minority self-governments, which indicates that their financial management should be considered risky. The SAO's audits continue to make up for the lack of external control and feedback. Between 1 January and 31 December 2015, the SAO published 26 audit reports in this regard.*



### OUR PERFORMANCE IN NUMBERS WITH RESPECT TO RECOMMENDATIONS

**454** recommendations  
formulated

**343** recommendations  
for town clerks

**111** recommendations  
for the  
chairpersons of  
minority self-  
governments

#### Findings

The SAO reports containing the findings of the audits of the 26 local governments are available by clicking on the settlement's name in Section 6 of Annex 1 or can be downloaded from the SAO website ([www.asz.hu](http://www.asz.hu)).

#### Conclusions

The experiences of the audit demonstrate that the laws on the rights of minorities have defined an adequate framework. By stipulating the conclusion of cooperation agreements approved by the representative councils of local governments, the laws in force put in place and ensured the regularity of the conditions for the financial management and operation of local minority self-governments. Once again, the audits demonstrated that the regularity of the financial management of minority self-governments greatly depends on the task performance of the office performing the economic activity.

#### Recommendations

With respect to the findings requiring action, we formulated recommendations for the heads of the audited entities in order to facilitate the enforcement of the provisions of the regulatory framework and to foster the regularity of financial management. The most important recommendation was aimed at the conclusion of cooperation agreements with the contents required by law. In response to the recommendations, the audited entities prepared action plans. The conclusion of some of these plans is in progress.

## 6.6. The audit of national minority self-governments

*In consideration of the financial management of national minority self-governments and the legislative changes affecting minority self-governments, based on identical criteria, the SAO conducted regularity audits covering all national minority self-governments in Hungary. In 2015, it concluded the audits of 13 national minority self-governments.*

#### Findings

The SAO reports containing the findings of the audits of national minority self-governments are available by clicking on the settlement's name in Section 7 of Annex 1 or can be downloaded from the SAO website ([www.asz.hu](http://www.asz.hu)).





### **Conclusions**

The audit period was witness to considerable economic, social and legislative changes. A new Minorities Act entered into force along with a new Act on Public Finances, and minority self-governments were not fully prepared for the adoption, application and consistent execution of the legal provisions. As independently operating budgetary institutions with independent financial management, the offices of minority self-governments could not ensure the regularity of operation and the regular use of public funds; taking over the tasks of the co-existing minority self-governments was not without problems.

### **Recommendations**

The SAO formulated recommendations for the chairpersons and office managers of the affected local governments in order to improve the regularity of the operation of local governments, their offices and the institutions operated by them. Among other items, the SAO's recommendations were aimed at improving the internal control system, the regularity of property management and the enforcement of the deadlines for budgeting and the preparation of the final accounts. In response to the recommendations, the audited entities prepared action plans. The conclusion of some of these plans is in progress.

## 7. Audit on the exercise of proprietary rights over state and local government property

*Pursuant to legislative requirements, on the one hand, the SAO audits the exercise of proprietary rights over state property on an annual basis. On the other hand, on the basis of various criteria, it has been examining specific areas and organisations of the local government sector for a considerable period now. These series of audits include the ones conducted at local government-owned business associations since 2011.*

### 7.1. Audit of the activities relating to the exercise of proprietary rights over state property

*Pursuant to legislative requirements, the State Audit Office audits the exercise of ownership rights over state property on an annual basis. The SAO's audits conducted at three Ministries and four organisations were intended to assess whether the measures, control environments, audit and control systems of the organisations exercising proprietary rights ensured the regularity of the exercise of proprietary rights.*

Disclosure serial  
no. and link

**15215**

#### Findings

Press summary

**15215-O**

The SAO report containing the findings of the audit of the exercise of proprietary 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](http://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 AUDITED ENTITIES

**3** audited Ministries

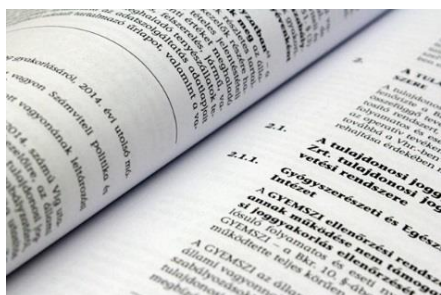
**4** audited entities

#### Conclusions

While the set-up of the control environment and the internal control system of the organisations performing tasks related to the exercise of proprietary rights has become more regulated compared to the previous year, alongside the control activities, they were unable to fully ensure the regularity of the exercise of proprietary rights.

#### Recommendations

The SAO formulated recommendations for the Minister of Human Capacities regarding the exercise of ownership control; for the Minister of Rural Development regarding the modification of the chart of accounts; for the Minister of National Development regarding the modification of the Rules of Procedure on ownership control and the amendment of the agreement with MNV Zrt. and, on this basis, regarding the recording of the accurate value of the state property embodied in MÁV Zrt. in the accounting records of the Ministry of National Development. The SAO also issued a recommendation for the CEO of MNV Zrt. about the modification of the chart of accounts, the inventory policy and the policy on property records, the enforcement of the legal compliance of contracts concluded for the utilisation of property, the full recognition of the real property placed under asset management among the invested assets of the 'O' account category and their removal from the balance sheet. We also recommended the amendment of the agreement with the Ministry



of National Development and the clarification of liability regarding the irregularity detected in relation to the agreement on asset handover-takeover.

We formulated a recommendation for the President of the National Land Fund (NFA) with regard to the modification of the accounting policy and the stocktaking and inventory policy, and we suggested the recording of the restraint on alienation in the real estate registry in the case of real property handed over free of charge. Additional recommendations were aimed at the enforcement of the legal compliance of asset management contracts, the derecognition of the real property placed under asset management with an organisation within public finances and the recognition of the gross value of such assets among the invested assets of the '0' account category, the inclusion of parcels of land placed under asset management with organisations outside of public finances in the accounting records and the adequate recognition of real property placed under asset management with local governments. We formulated a recommendation for the CEO of MFB Zrt. to establish consistency between the OOR and the relevant legislative provisions. We recommended for the Director General of the National Healthcare Centre the modification of the accounting policy, the chart of accounts and the policy on property records, the enforcement of ownership control over the management of state property as per regulations, the enforcement of the legal compliance of contracts concluded for the utilisation of property, the derecognition of real property placed under asset management with an organisation within public finances and the recognition of the gross value of such assets among the invested assets of the '0' account category.

In response to the recommendations, the audited organisations prepared action plans, which were acknowledged by the SAO.

## 7.2. Audit of Diákhitel Központ Zrt.

*Diákhitel Központ Zrt. ('Student Loan Centre') is among the publicly funded, prioritised organisations of the government sector with regular operation. Its task is to operate the student credit system and to disburse student loans, which constitutes a part of the funding provided to higher education.*

Disclosure serial  
no. and link

**15106**

### Findings

Press summary

**15106-O**

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

### Conclusions

During the regularity audit of the operation of Diákhitel Központ Zrt. between 2011 and 2013, the SAO found that, apart from a few minor deficiencies, the financial regulation and internal control system of the company was adequate, and its property management and the implementation of ownership control was fully compliant with regulations.



### Recommendations

Based on the audit findings, the SAO formulated recommendations for the CEO of Diákhitel Központ Zrt., on the basis of which the CEO drew up an action plan. In response to the recommendations, the audited entity prepared an action plan, which was acknowledged by the SAO.

## 7.3. Audit of the property management activities of state-owned forestry companies

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*The State Audit Office audited all forestry companies owned 100% by the state (22). The companies concerned manage their own lands or lands placed under asset management or leased for use. 19 forestry companies control around 50% of all forests in Hungary, while three forestry companies use lands managed by the Ministry of Defence. During the audit we evaluated the regularity of the companies' property management and their activities aimed at the preservation and accumulation of asset value.*



### Findings

The SAO reports containing the findings of the audits of the 22 forestry companies are available by clicking on the institution's name in Section 1 of Annex 8 or can be downloaded from the SAO website ([www.asz.hu](http://www.asz.hu)).

### Conclusions

The SAO's audits detected several intrinsic and systemic defects. The forestry companies failed to segregate the state property managed by them and their own assets by asset item and by the entity exercising proprietary rights over the managed asset items. The property records of the companies did not ensure transparency and accountability. The assets managed by the companies were not stated properly on their balance sheets, the control system of the entities exercising proprietary rights did not support the comprehensive definition of the asset management fee, i.e. the subject of the asset management activity.

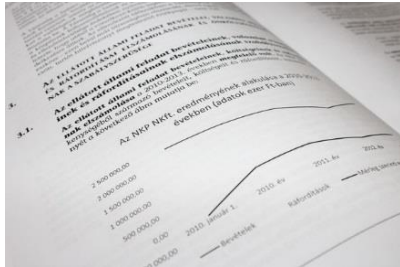
### Recommendations

Based on the findings of the audit, we issued recommendations for the CEO of MNV Zrt., the President of the NFA, the CEOs of the companies and, in three cases, to the Minister of Defence. In response to the recommendations, the audited entities prepared action plans. The conclusion of some of these plans is in progress.

## 7.4. Audit of the asset preservation and financial management activities of state-owned (or partly state-owned) business associations

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*In the context of thematic audits, the SAO audits the asset preservation and financial management activities of state-owned (or partly state-owned) business associations outside of public finances, classified into the government sector. In 2015, it published audit reports on six business associations. As part of the audits covering the period of 2010–2013, in addition to evaluating the regularity of the exercise of proprietary rights, the regularity of property management activity and the regularity of decisions resulting in changes in assets, among the elements of the financial management of other organisations classified into the government sector we also assessed the legal compliance of those affecting public deficit and public debt.*



**Findings**

The SAO reports containing the findings of the audits of the 6 business associations are available by clicking on the institution’s name in Section 9 of Annex 1 or can be downloaded from the SAO website ([www.asz.hu](http://www.asz.hu)).

**Conclusions**

In the interest of the safeguarding of national assets, even in the case of organisations outside of public finances, it is important to ensure the transparent use of public funds and the regularity of financial management and operation. This is all the more important considering that, under European Union regulations, some of the organisations outside of public finances belong to the government sector, and their performance in financial management has an impact on the consolidated debt ratio of public finances and on the public deficit. Our audits revealed that the companies concerned were not involved in deals that would generate debts. Their results, overall, did not have a negative impact on public deficit. That notwithstanding, there is room for improvement regarding the operation of an internal control system that ensures responsible property management, ownership control and the conditions required for ensuring the regularity of property management.

**Recommendations**

Based on the audit findings, we formulated recommendations to eliminate the deficiencies detected and to ensure regular operation. In response to the recommendations, the audited organisations prepared action plans, which were acknowledged by the SAO.

**7.5. Audit of local government waste management and district heating companies**

*With the adoption of the 2011 amendment to the SAO Act, the National Assembly empowered the SAO to extend its audits to companies in which local governments hold a majority interest. In 2015, the SAO published reports concerning the regularity of the financial management of 44 business associations. The SAO published its experiences in a consolidated format in the study entitled ‘In focus: Public services’.*



Link to study



**Findings**

The SAO reports containing the findings of the audits of the 44 waste management and district heating companies are available by clicking on the institution’s name in Section 1 of Annex 10 or can be downloaded from the SAO website ([www.asz.hu](http://www.asz.hu)).

**The study entitled ‘In focus: Public services’**

The experiences of the audits conducted were summarised in the study entitled ‘Audit experiences of waste management and district heating companies majority-owned by local governments’. The study is available by clicking on the highlighted disclosure serial number or can be downloaded from the SAO website ([www.asz.hu](http://www.asz.hu)).

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

**260** recommendations formulated

**129** for improving regulation

**131** for correcting incorrect or inadequate financial management practices

The first volume of the study contains the audit experiences gained from the audit of 27 district heating companies owned by local governments for the period of 2008–2012. In the second volume, focusing on 20 district heating companies, we analyse fee developments and the impact of the reduction of utility charges on the financial management of the companies in the period of 2008–2014.

**Conclusions**

Proper planning is indispensable for the expedient, effective and measurable operation of the companies. In the long run, we believe that there is a need to define certain requirements and criteria that ensure the evaluation of performance. In order to meet the objectives expected of the service providers, clear requirements should be set for the management of the companies, and their ability to meet these performance criteria should be continuously monitored and evaluated. In order to substantiate the fees and charges of public services, it is indispensable to rely on a fee calculation that is transparent and complies with regulations in its content. It is critical to address fee arrears for ensuring the sustainability of the service. The preservation of the value attached to the assets was jeopardised by the fact that half of the companies failed to make their lease payments for the use of assets placed under asset management.

Large-value direct and indirect subsidies granted to the companies combined with the necessity of recapitalisation posed a risk to local government owners.

Based on our experiences, the controls exercised by the owner should be tightened, primarily through the inspection of annual planning, the definition, monitoring and evaluation of performance criteria and, in case of a deviation from the goals, the enforcement of the necessary measures.

**Recommendations**

The number of recommendations linked to the 44 reports published amounted to 260, of which 173 recommendations were addressed to the managing directors/CEOs of the business associations, while 31 recommendations were sent to the mayors of local governments and 56 to town clerks.

Of the recommendations addressed to the managing directors/CEOs of the business associations, 99 recommendations were aimed at regularity, and 74 items were intended to ensure the correction of incorrect or inadequate financial management practices.

As regards regularity, the majority of the recommendations were related to the audit of the accounting policy and the policies prepared within the framework of the accounting policy.




In response to the recommendations, the audited entities prepared action plans. The conclusion of some of these plans is in progress.

## 8. Audits with limited auditing powers

The audit activity of the State Audit Office is essentially determined by the statutory requirements prescribing the execution of certain tasks with a pre-defined frequency. The scope of the audits with limited auditing powers is also defined by law. In 2015, the SAO conducted regularity audits aimed at the financial management of the National Bank of Hungary (MNB), parties and party foundations. In 2013, the National Assembly crafted a new act on election procedures and on the transparent campaign financing upon the election of Members of Parliament. Based on the SAO's legal mandate, in the framework of regularity audits, we audited the accounting of campaign funds and of the funds spent on by-election campaigns, as well as the utilisation of the funds spent on the 2014 elections.

### 8.1. Audit of the National Bank of Hungary (MNB)

For the period of 2012–2013, we evaluated the regularity of the operation and financial management of the MNB and of the Hungarian Financial Supervisory Authority (HFSA) in 2009–2013, as well as the integration of the latter's operation and activities into the MNB.

<p>Disclosure serial no. and link </p>	<div style="background-color: #4a86e8; color: white; padding: 5px; display: inline-block; border-radius: 3px;">15046</div>	<p><b>Findings</b></p>
<p>Press summary </p>	<div style="background-color: #4a86e8; color: white; padding: 5px; display: inline-block; border-radius: 3px;">15046-O</div>	<p>The SAO report containing the findings of the audit of the operation of the National Bank of Hungary is available by clicking on the highlighted disclosure serial number or can be downloaded from the SAO website (<a href="http://www.asz.hu">www.asz.hu</a>). The summary prepared for the press (also containing the main findings) is available at the link marked "O".</p>
		<p><b>Conclusions</b></p> <p>In 2013–2014, the operation and financial management of the MNB was regular. The handover-takeover procedure during the integration of the HFSA was essentially well-documented. The task performance of the HFSA was regulated, but in the lack of a standard operating procedure there was a risk that its operation was not fully compliant with legal provisions and internal policies during its control procedures.</p>
		<p><b>Recommendations</b></p> <p>We suggested that the Minister for National Economy issue a legally compliant deed of foundation. Our recommendation addressed to the Governor of the MNB called for the elimination of the deficiencies observed in the area of market surveillance procedures and presented a proposal regarding the collection of the administrative service fee. In response to the recommendations, the audited organisations prepared action plans, which were acknowledged by the SAO.</p>

## 8.2. The audit of parties and party foundations

*Pursuant to the authorisation of the SAO Act, the SAO audits the financial management of parties and party foundations receiving regular state subsidy from the central budget every two years. The SAO supports the National Assembly in reforming the legislative environment by presenting the deficiencies detected in its reports. By conducting the audit, the SAO has fulfilled its tasks set out in Article 5 (3) and (11) of the SAO Act.*



### 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 11 of Annex 1 or can be downloaded from the SAO website ([www.asz.hu](http://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 12 of Annex 1 or can be downloaded from the SAO website ([www.asz.hu](http://www.asz.hu)).

### Conclusions

Through the presentation of the regularity of the financial management of parties and party foundations, as well as the amounts of public funds used, the general public gained an objective view of the operation of these organisations. The audit pointed out good practices and irregularities regarding the financial management of parties and party foundations and the utilisation of their subsidies granted from the central budget. The legality audits of the financial management of parties continued to underpin the discrepancies between the accounting and reporting systems of parties and the provisions of the Accounting Act and the Act on Political Parties.

During the legality audit of the financial management of parties receiving regular state subsidy from the central budget, 1 party failed to cooperate with the State Audit Office with respect to the performance of its data disclosure obligation and thus prevented the execution of the audit.

### Recommendations

Of the audited parties, the SAO issued recommendations for one party president, primarily calling for the elimination of accounting deficiencies and the utilisation of the recommendations made on the occasion of a previous SAO audit. As regards the audited party foundations, recommendations were issued for the chairs of the boards of trustees in two cases, calling for ensuring the regularity of the operation of the board of trustees and the legality of financial management, the elimination of the detected accounting deficiencies and the utilisation of the previously issued SAO recommendation. The party and the party foundation prepared respective action plans for the utilisation of the recommendation, which were acknowledged by the SAO.

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

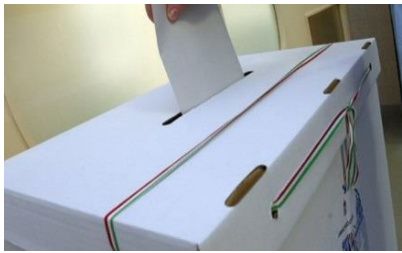
**3** audited parties

**3** audited party foundations



### 8.3. Audit of campaign funds

*Pursuant to the Act on the election of Members of Parliament, the National Assembly has 199 MPs, of which 106 MPs are elected in single mandate constituencies. Compared to previous elections, the 2014 parliamentary elections were organised and financed according to a new system. In 2013, new acts were passed by the National Assembly on the electoral procedure and on the transparency of campaign costs (Act LXXXVII of 2013 on the Transparency of Campaign Costs related to the Election of the Members of the National Assembly), which clearly specify the audit assignments of the State Audit Office of Hungary.*



#### Findings

The SAO reports containing the findings of the audits of the candidates who have obtained a mandate, their nominating organisations as well as nominating organisations audited upon request are available by clicking on the name of the party foundation in Section 13 of Annex 1 or can be downloaded from the SAO website ([www.asz.hu](http://www.asz.hu)).

#### Conclusions

It is the outcome of the audit that, under the relevant legal provisions, violations of the constraints and prohibitions set out by law and detected by the SAO shall lead to sanctions. Accordingly, the SAO submitted its reports to the Hungarian State Treasury to ensure that the necessary measures are taken. It has been thus enforced that the irregular use of public funds detected by the SAO will not be without consequences.

The findings contained in the SAO's report have clearly demonstrated that the recently introduced legislative changes increased the transparency of the use of campaign funds and improved the possibilities of auditing. The new regulations on the electoral procedure and campaign financing, as well as the audit levels and instruments successfully introduced contributed to providing information – among others, through the SAO's audits – to citizens about the way their tax contributions had been spent on the electoral campaign, while helping to reveal any irregularities and illegal acts, which the SAO attempted to rectify by taking advantage of any options provided by law.

#### Recommendations

The SAO did not issue recommendations for individual candidates and nominating organisations. It called the Treasury's attention to the deficiencies detected and notified the media authority regarding the findings related to political advertisements.



#### OUR PERFORMANCE IN NUMBERS WITH RESPECT TO THE AUDIT OF CAMPAIGN FUNDS

<b>106</b>	individual candidates
<b>4</b>	nominating organisations
<b>14</b>	nominating organisations audited upon request

## 8.4. Audit on the accounting for the financial resources allotted to the campaigns of by-elections

*Pursuant to the statutory provisions, within one year from the election, the use of funds from the central budget spent on by-elections shall be audited by the State Audit Office of Hungary ex officio with respect to candidates who have obtained a mandate, as well as the use of state and other funds spent on by-elections as specified in the Act on Political Parties with respect to the candidates who have obtained a mandate in the National Assembly and their nominating organisations. Accounting for the assistance granted to individual candidates shall be audited by the Treasury before the SAO conducts its audit ex officio regarding the use of campaign funds. Compared to previous elections, the 2014 parliamentary elections were organised and financed according to a new system.*

*In relation to the by-elections, no request for an audit had been submitted to the SAO; consequently, the SAO's report was prepared on the basis of the audit of individual candidates obtaining a mandate during the by-elections, as well as on the basis of the audit of their nominating organisations.*

Disclosure serial no. and link 	<u>15200</u>	■ <b>Findings</b>
Press summary 	<u>15200-O</u>	■

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

**Conclusions**

It is the outcome of the audit that, under the relevant legal provisions, violations of the constraints and prohibitions set out by law and detected by the SAO shall lead to sanctions. Accordingly, the SAO submitted its reports to the Hungarian State Treasury to ensure that the necessary measures are taken. It has been thus enforced that the irregular use of public funds detected by the SAO will not be without consequences. The findings contained in the SAO's report have clearly demonstrated that the recently introduced legislative changes increased the transparency of the use of campaign funds and improved the possibilities of auditing. The new regulations on the electoral procedure and campaign financing, as well as the audit levels and instruments successfully introduced contributed to providing information – among others, through the SAO's audits – to citizens about the way their tax contributions had been spent on the election campaign, while helping to reveal any irregularities and illegal acts. To that end, the SAO took advantage of any options provided by law.

**Recommendations**

The SAO did not issue recommendations for individual candidates and nominating organisations. It called the Treasury's attention to the deficiencies detected.

## 8.5. Audit of the financial resources allotted to elections in 2014

*The SAO informs the National Assembly of the utilisation of the financial resources granted from the central budget for the costs of the preparations for and the execution of elections and for other costs associated with the activity of the electoral bodies. The SAO audited the regularity of the planning, utilisation and accounting for the financial resources allotted to the three elections held in 2014 (election of members of the National Assembly, election of members of the European Parliament, election of local government and minority self-government representatives and mayors). The audit also covered the electoral bodies' compliance with statutory audit obligations.*



### Findings

The SAO reports containing the findings of the audits of the financial resources allotted to the election of members of the National Assembly, members of the European Parliament, mayors and local government and minority self-government representatives are available by clicking on the name of the party foundation in Section 14 of Annex 1 or can be downloaded from the SAO website ([www.asz.hu](http://www.asz.hu)).

### Conclusions



The use of public funds in the amount of HUF 17.3 billion for the elections of 2014 was targeted and regular overall. Most electoral bodies carried out follow-up audits regarding the utilisation of the financial resources and the settlement of accounts.

## 9. Follow-up audits

*Pursuant to the new SAO Act effective as of 1 July 2011, the audited entities are required to prepare action plans for the utilisation of the SAO's recommendations. The legislation stipulated that the implementation of the action plans acknowledged by the SAO may be inspected in the context of follow-up audits, which is another factor guaranteeing that the audits bring about a positive shift in the direction of sound public finances. The era of audits without consequences has come to an end, and the system of independent follow-up audits was introduced in the audit activity of the SAO.*



### 9.1. Follow-up audit of Hungarian Post Co. Ltd.

*In the context of the audit of the financial management of Hungarian Post Co. Ltd., the SAO evaluated the preparatory work for the post market liberalisation and the relevant regulatory environment, the modernisation of postal services, the activity of management and the operator exercising proprietary rights, investment and procurement controls and property management. In order to eliminate the deficiencies detected, in line with their statutory obligations, the affected organisations compiled action plans, which were acknowledged by the SAO. The follow-up audit was aimed at the evaluation of the implementation of the tasks specified in the action plans.*

Disclosure serial no. and link 	<b>15059</b>	<b>Findings</b>
Press summary 	<b>15059-O</b>	<p>The SAO report containing the findings of the audit of Hungarian Post Co. Ltd. is available by clicking on the highlighted disclosure serial number or can be downloaded from the SAO website (<a href="http://www.asz.hu">www.asz.hu</a>). The summary prepared for the press (also containing the main findings) is available at the link marked "O".</p> <p><b>Conclusions</b></p> <p>The recommendations contained in the audit report of the SAO's 2011 audit were fully utilised.</p>

### 9.2. Follow-up audit on measures to combat air pollution

*In 2011, the SAO assessed the fulfilment of international commitments concerning the reduction of air pollution and climate protection. In this context, it conducted a systems audit to evaluate the fulfilment of the objectives related to the reduction of air pollution and climate protection. The follow-up audit was aimed at evaluating the implementation of the action plans prepared in response to the deficiencies detected.*

Disclosure serial no. and link 	<b>15069</b>	<b>Findings</b>
Press summary 	<b>15069-O</b>	<p>The SAO report containing the findings of the follow-up audit on measures to combat air pollution is available by clicking on the highlighted disclosure serial number or can be downloaded from the SAO website (<a href="http://www.asz.hu">www.asz.hu</a>). The summary prepared for the press (also containing the main findings) is available at the link marked "O".</p>

### Conclusions

The recommendations contained in the audit report of the SAO's 2011 audit were fully or partly utilised.

## 9.3. Follow-up audit on the status and regularity of the financial management of local governments

*In December 2014, the State Audit Office published its summary report on the follow-up audit evaluating the implementation of the approved action plans of local governments of 62 towns selected for the financial audit of 2011 by representative sampling. In 2015, the follow-up audits continued with the follow-up audit of the financial audit of 2012–2013 affecting 13 local governments selected on the basis of risk analysis. The follow-up audits were intended to establish whether the audited local governments had implemented the tasks required for the restoration of the financial equilibrium, as defined in the action plans acknowledged by the State Audit Office. In October 2015, the SAO completed the follow-up audit on the status and regularity of the financial management of local governments of an additional 10 settlements. The findings of the follow-up audit were related to the evaluation of the implementation of the action plans prepared for the utilisation of the findings requiring action and recommendations formulated in the context of the financial management and regularity audits conducted at the affected local governments for the period between January 2009 and June 2012.*



### Findings

The SAO reports containing the findings of the follow-up audit on the status and regularity of the financial management of local governments are available by clicking on the name of the party foundation in Section 15 of Annex 1 or can be downloaded from the SAO website ([www.asz.hu](http://www.asz.hu)).

### Conclusions

Based on the audit findings regarding the local governments of the settlements, as a combined result of local and central measures, the majority of the local governments had taken the necessary steps to improve their sustainable financial stability, which is an important milestone in preventing the re-accumulation of local government debt. Through the timely and comprehensive execution of the pressing tasks defined in the action plans, the local governments took immediate steps toward improving the conditions of financial stability and the sustainability of solvency and preventing the re-accumulation of debt, while also taking considerable measures to eliminate the regulatory deficiencies of their financial management. Local governments that failed to implement their commitments by the deadline or did not implement the measures at all face high financial risks with regard to the organisation's financial equilibrium, regulated operation and financial management.

## 10. Advisory and analytical activity

*The advisory and analytical activity of the SAO is intended to improve the transparency and effectiveness of the use of public funds and to facilitate the efficient operation of the institutions and systems that ensure the provision of public services, thereby contributing to the implementation of a well-managed state and ‘good governance’. Emphasising the importance of this activity of the SAO, in its Decision No. 34/2015 (VII. 7.) the National Assembly endorsed that the State Audit Office should expand its advisory activities regarding management systems and support the training of ethical managers in public finance in respect of organisations involved in managing public funds and public property. The SAO’s analyses support the work of the Fiscal Council (FC) and the SAO prepares analyses also in relation to its audit tasks. An important aspect of the SAO’s advisory activity is the provision of opinions on the budget bill.*

### 10.1. Opinion on the budget appropriation bill

*Pursuant to the provisions of the SAO Act, the SAO provides an opinion for the National Assembly on the substantiation of the bill on the central budget of Hungary and the feasibility of revenue appropriations.*

#### *What is the difference between an opinion and a report?*

A unique form of auditing the central budget, without findings requiring action. The audit opinion addressed to the National Assembly 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 amendments that need to be incorporated into the bill in order to enable the National Assembly to adopt at the closing vote an Act that complies with the public debt reduction requirement and other equilibrium requirements more reliably.

#### Criteria of formulating an opinion

By providing an opinion on the central budget, the State Audit Office commented on a given state of the central budget for the purpose of enabling the National Assembly to pass – by crafting the legislation still required and adopting the motions for amendment – a budget that is substantiated and capable of managing risks that may realistically arise. Based on the audit, the SAO concluded that the budget complied with the debt rule set forth in the Fundamental Law and adhered to the provisions of the legislation on public finances. The SAO’s audit also called attention to the risks surrounding the budget, and its analyses prepared in relation to the audit assisted the work of the FC.

#### Utilisation

The Opinion was utilised during the parliamentary debate of the budget bill. Members of Parliament received copies of the Opinion. The National Assembly discussed the budget bill in conjunction with the opinion of the SAO. The President of the SAO presented the opinion of the SAO in his introductory speech at the plenary session of the National Assembly.

### 10.2. Supporting the task performance of the Fiscal Council

*In accordance with the provisions of the Stability Act, as a member of the Fiscal Council, the President of the SAO assisted the task performance of the FC by providing analyses and audit findings in 2015 as well. The audit experiences of the SAO in relation to formulating its opinion on the budget were utilised during the substantiation of the FC’s decisions.*

Link to analysis



**T/388**

### **Analysis for the Fiscal Council on the budgetary processes in the first half of 2015**

Pursuant to Act CXCV of 2011 on the Economic Stability of Hungary (Stability Act), the Fiscal Council provides an opinion every six months on the status of the execution of the act on the central budget as well as the expected changes in public debt.

In accordance with the provisions of the Stability Act, the State Audit Office assists the work of the President of the SAO as a member of the FC by producing and making available to the FC analyses on the issues discussed by the FC. The analysis is intended to present expected instances of overshooting or undershooting the most important appropriations of the budget based on budgetary and macroeconomic data pertaining to the first half of 2015, and to call attention, based on this information, to the risks surrounding the fulfilment of the 2015 deficit target and the fulfilment of the debt rule.

### **Analysis on the macroeconomic correlations of 2014 budgetary processes**

In line with the advisory role of the SAO, in relation to the final accounts of 2014, the analysis is intended to identify the economic factors behind the changes in revenues and the economic and social changes brought about by budget expenditures. It also attempts to pinpoint the correlations that led to the favourable budget variance. The analysis also relies on Hungarian and international statistics. In order to present economic and social linkages, the analysis is not limited to the data of a single year, but also draws attention to trends over the mid-term horizon. The analysis found that the structure of economic growth became more balanced in 2014. While exports were the main driver of the economy in the previous two years, in 2014 GDP growth was also boosted by an 11.7% increase in investment and a 1.7% improvement in household consumption. Retroactive measures addressing the unfair extra burden of household loans improved the financial position of households significantly. The conversion of foreign currency loans lifted the burden of the associated exchange rate risk weighing on the debtors. The redistribution rate was high despite further declines in 2014 in the ratio of expenditures on social security and welfare services. Instead of general austerity measures, however, this resulted from a paradigm shift: the state supports those affected by the application of the 'work instead of aid' principle, by the tax and social security allowances granted under the Job Protection Action Plan, and by the extension of the child tax credit, rather than by raising welfare expenditures. The sharp rise in the economy-oriented expenditures of the budget reflects the state's more active economic participation and the intensified absorption of EU funds.

### *What is an analysis?*

A document prepared with the intention 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 evaluate their impact. In relation to specific audits, summary analyses provide a situation analysis on the given area, based on which they formulate various observations and questions. Exploratory analyses, which are not linked to audits, are primarily utilised in audit topic selection and in the preparation of semi-annual audit plans. In addition, the SAO also prepares analyses as part of the work in support of the Fiscal Council.

### 10.3. Supporting the SAO's advisory activity

*It is an important mission of the SAO to leverage its experiences to support potential audited entities in the context of its statutory advisory activity. The analyses prepared by the SAO are primarily utilised as part of its advisory activity, but in many cases, they may also serve as basis for audit topic selection. The reports issued as a result of the SAO's audits may become a point of reference for comprehensive, summary analyses prepared on the given subject.*

#### Analyses and studies in numbers

Within the framework of its advisory activity, the State Audit Office published 26 analyses and studies in 2015. These analyses and studies are available by clicking on the title of the publication in Annex 2 or can be downloaded from the SAO website ([www.asz.hu](http://www.asz.hu)).

Among the analyses posted on the SAO website, mention should be made of the analyses written on the budgetary processes of 2014 and of the first half of 2015, along with their macroeconomic correlations; analyses presenting the results of the 2014 Integrity Survey in various institution groups, and the study providing a comprehensive review and assessment on the EU assistance allocated to Hungary in the EU programming period of 2007–2013.

In 2015, the SAO prepared, for example, summary studies on the experiences gained during the audit of the internal control system of local governments and the operation and financial management of public higher education institutions.

SAO experts analysed the effects of the reduction of household utility charges in the document written on the audit experiences of waste management and district heating companies majority-owned by local governments.

In support of the SAO's advisory activity, in 2015 leaders of national local government interest groups consulted with the President and Vice-President of the SAO with regard to current issues affecting the subsystem of local governments. In the framework of its advisory activity, in June 2015 the SAO concluded its traditional series of professional consultations between senior officers of the SAO and the historic churches of Hungary.

### 10.4. Studies on improving competitiveness

*The obligation to reduce the debt-to-GDP ratio is in the centre of the Public Finances chapter of the Fundamental Law. It is the numerator of the fraction that mainly concerns the State Audit Office; in other words, most of its tasks are related to developments in public debt. On the other hand, albeit indirectly, the effectiveness and economy of public spending also contributes to GDP growth. With that in mind, the SAO's series of studies seeks to explore the ways in which the audits of the SAO can exert the most positive impact possible on GDP developments.*

#### Improving competitiveness

Prepared in 2014, the first study discussed on general terms how SAO audits can contribute to improving the competitiveness of the Hungarian economy. The studies published this year focused on four priority areas (acquisition and utilisation of knowledge, investment projects, inexpensive energy) to identify the focal points of audits that can



generate the highest added value from the aspect of competitiveness and hence, economic growth.

The study on the **acquisition and utilisation of knowledge** revealed that the monitoring systems required for tracking the utilisation of training (including vocational training, higher education and adult training alike) and research and development had not been set up comprehensively – despite legal provisions to that effect – and do not provide a reliable view of the processes of utilisation. Regarding the area of research and development, the study concluded that audits should mainly focus on the practical utilisation of research results.

The study dedicated to **investment projects** explained, on the one hand, that the downturn in investment activity after 2008 could be partly attributed to the unsustainability of previous investment schemes. On the other hand, it demonstrated that the investment boom starting in 2013 was largely due to the intensive absorption of EU funds. Both findings underpinned that the SAO needed to concentrate on auditing the level of preparedness for large one-off projects and for the schemes aimed at boosting investment.

The study on **measures serving inexpensive energy supply for the economy** highlighted the importance of auditing preparedness for projects determining the future ‘energy mix’. In addition, an expedient focal area of SAO audits could be the national regulatory environment that determines more than half of actual energy prices in the form of taxes and charges. The implementation of strategies and action plans serving the improvement of energy efficiency is important from the aspects of competitiveness, energy security and climate protection alike and as such, it should be another focal point for audits.

## 10.5. Strengthening financial awareness

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*In recent years, the enhancement of the financial literacy of Hungarian citizens has become one of the SAO’s priorities in the area of corporate social responsibility. This aspiration was also underpinned by Decision No. 41/2014 (XI. 13.) of the National Assembly by recognising and supporting the role of the SAO in enhancing financial literacy.*

### **Enhancing financial and public finance literacy**

Using its audit experiences and solid professional-academic background, the SAO plays a proactive role and serves as a catalyst in the enhancement of financial and public finance literacy, performing a professional-academic support activity. In the SAO’s interpretation, financial literacy is a level of financial knowledge and skills that enables individuals to identify the essential financial information required to make educated and prudent decisions, and to interpret the data once obtained. They then make decisions on this basis, being aware of the potential financial and other consequences of their decisions.

In 2015, the most important project of the SAO in this area was the implementation of a questionnaire-based survey on financial literacy programmes. The purpose of the survey was to map and assess initiatives aimed at the improvement of Hungarian financial literacy and financial awareness, and to explore the characteristic features and deficiencies of

### What are self-tests?

Self-tests comprise a questionnaire completed voluntarily by the stakeholders for their own utilisation, designed in consideration of a given operational and regulatory environment and the features of specific tasks for the purpose of supporting the assessment and evaluation of the task performance of organisations and institutions using public funds, along with the regularities of their internal control systems. Self-tests allow respondents to formulate a view of the regularity of their own operation and the state of their own control mechanisms; they can be used effectively to explore defects, deficiencies and risks and to identify the possibilities for correction.

### Self-test system

To facilitate efficient and disciplined public fund management, the SAO supports and enhances the regular operation of organisations and institutions using public funds with self-test questionnaires.

Self-tests are completed on a voluntary basis and are utilised by the respondents themselves. Their purpose is to enable respondents to formulate a view of the regularity of their own operation and the state of their own control mechanisms.

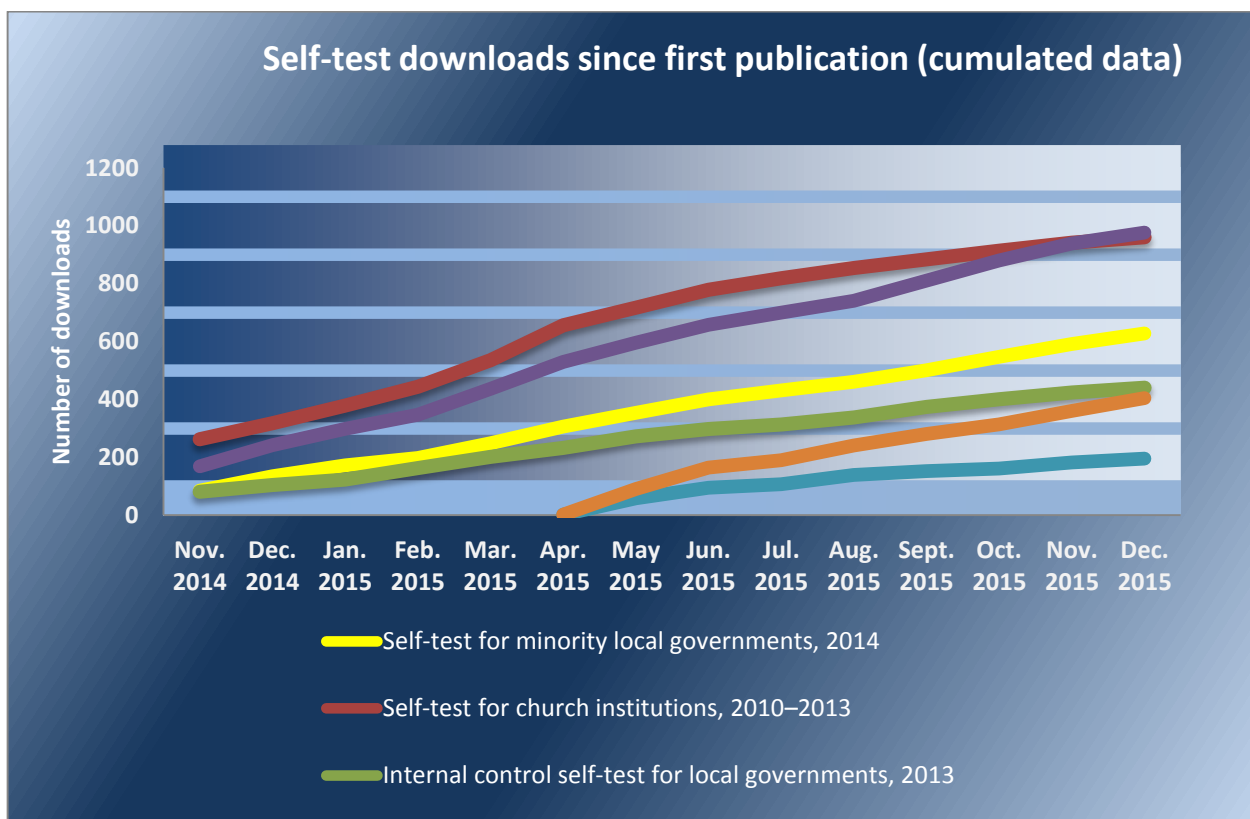
They can also be used effectively to explore the defects, deficiencies and risks existing in the given operational and task performance environment and to identify the possibilities for correction.

In 2014, the SAO developed self-tests for the internal control of local governments, for minority self-governments and for church institutions. In April 2015, the scope of the self-tests was extended to cover the operation of central budgetary institutions.

Stakeholders have downloaded the self-tests in increasing numbers since their publication on the SAO website, which demonstrates the effectiveness of their utilisation.

Figure 24 shows the number of downloads for the entire period since their first publication.

Figure 24





### **Public Finance Quarterly, the public finance journal of the SAO**

Public Finance Quarterly, the bilingual public finance journal is published by the State Audit Office of Hungary in close conjunction with the Public Finance Quarterly Online website. Excluding book reviews, 31 articles were published in our journal in 2015, focusing, in particular, on risk management, developments in the investment rates of the region, financial ‘innovations’ and fiscal policy.

It was one of the most prominent achievements of last year that the journal was granted the ‘Emerging Sources Citation Index’ (ESCI) of the Web of Science database. With this, the content of the journal can be searched and cited through the highest ranking international database. During this period, the Hungarian website of Public Finance Quarterly was visited by 5,025 individual users, while the English language website had 1,438 hits. The total number of downloads was 10,564. In the same period, 135 new news items were posted on Public Finance Quarterly Online, and the website had 41,732 individual visitors.

## **10.6. Renewal of public sector management**

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*Audits conducted among business associations in state or local government majority ownership have demonstrated that inadequate management and insufficient ownership control can have severe consequences. The absence of forward-looking, systemic solutions will undermine the budget, and its negative implications will affect the everyday lives of citizens. The control systems of business associations need to be improved significantly in order to ensure the state’s functioning as a responsible owner.*

Between 2011 and 2015, the SAO gained important audit experiences during the audits affecting business associations in majority state or local government ownership. Our audits demonstrated that the deficiencies of control may result in financial or moral losses or loss of confidence in numerous areas. In order to improve the expediency and effectiveness of public spending, the SAO presented its audit experiences and conclusions on several occasions. The key message the SAO attempted to convey was the importance of clear objectives, effective financial management, continuous ownership control and ultimately, the renewal of management, which might necessitate the revision of the remuneration system. At the government session held on 17 June 2015 and at the government evaluation conference on 25 August 2015, the President of the SAO gave an exhaustive presentation on the relevant experiences of the SAO and its recommendations. The government responded positively to our suggestions: in its resolution passed in September 2015, the government decided on the transformation of the appointment system of companies majority-owned by the state.

According to the resolution, the government is committed to establishing transparent, effective and economically viable operating conditions for majority state-owned business associations, and – in line with the recommendation of the SAO’s President – to the continuous performance assessment of the senior officers of majority state-owned business associations from the aspects of regularity, effectiveness and economy. The Decision also declares that state-owned companies are required to comply with strict ethical and integrity principles. The Decision stresses the need to strengthen the ability of those exercising ownership rights to order, supervise and evaluate effectiveness.

Moreover, the government heeded to the recommendation of the SAO in that the performance-based remuneration of senior officers should be brought more in line with market wages and requirements in the case of state-owned companies, and a substantial part of the current bonuses should be incorporated into the base salary. The criteria used for the performance assessment of senior officers should include the effectiveness of asset preservation, the ability to ensure the regularity of operation, personal-organisational integrity, the fulfilment of the effectiveness targets and the ability to ensure the quality defined in service contracts. The Decision states that the senior officers of loss-producing state-owned companies may not receive any additional remunerations.

## 10.7. Integrity Survey/Project

*The most effective method of the prevention-based fight against corruption is to detect corruption risks and to develop immunity against such 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 a threat. The SAO's Integrity Survey, which has been conducted each year since 2011, can help answer these questions.*



### The Hungarian model

Based on the risk assessment skills acquired in conjunction with the Dutch Court of Accounts in the Twinning-Light project, the SAO developed its methodology for the Integrity Project launched in 2009. By adopting, enhancing and extending the Dutch method to the entire Hungarian public sector, the SAO developed a unique 'Hungarian model' aimed at strengthening the organisational integrity of specific institutions and mapping the level of corruption risks and of the controls safeguarding against them. The 'Hungarian model' promotes the introduction of an anti-corruption set of instruments where, giving priority to prevention, the senior officers of public institutions commit themselves to values and set up internal operating environments through which they can protect their organisations and employees from the threats of corruption. Consequently, besides supreme audit institutions and authorities, a broader segment of committed senior officers joins the fight against corruption with public funds at their disposal.

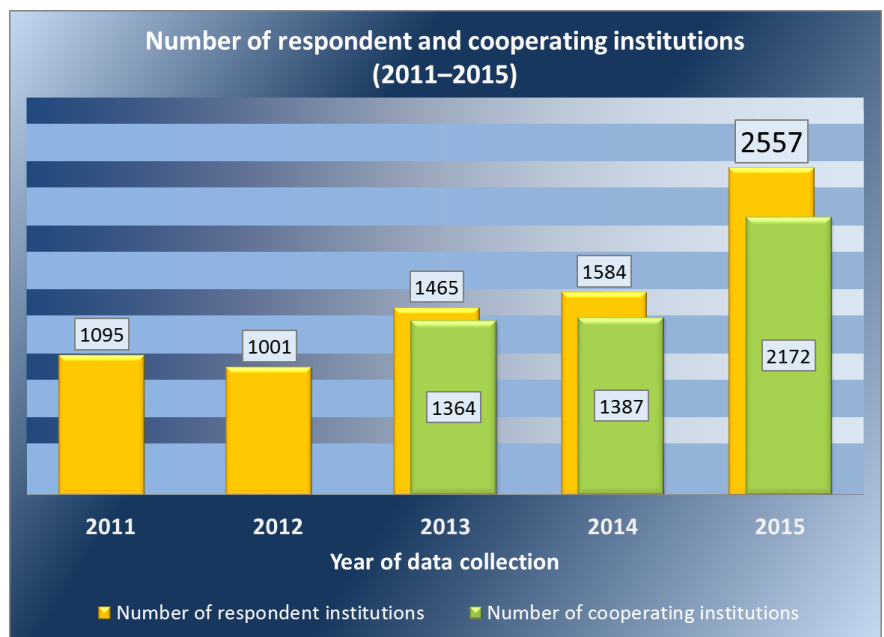
The three dogs symbolising the SAO's Integrity Project represent the anti-corruption roles of the institution: the SAO guards, warns and guides. It 'safeguards' the use of public funds, 'warns' if there are problems and 'guides' the financial management of public entities towards the right direction.

Initially, besides disseminating the criteria system for integrity-oriented operation that helps protecting against corruption, we prepared surveys and analyses. We supported public entities with self-tests, drawing their attention to the acquired good practices, and organised conferences and seminars. We now reached the phase of auditing the set-up and operation of the controls designed to ensure organisational integrity.

### Main results of the 2015 Integrity Survey

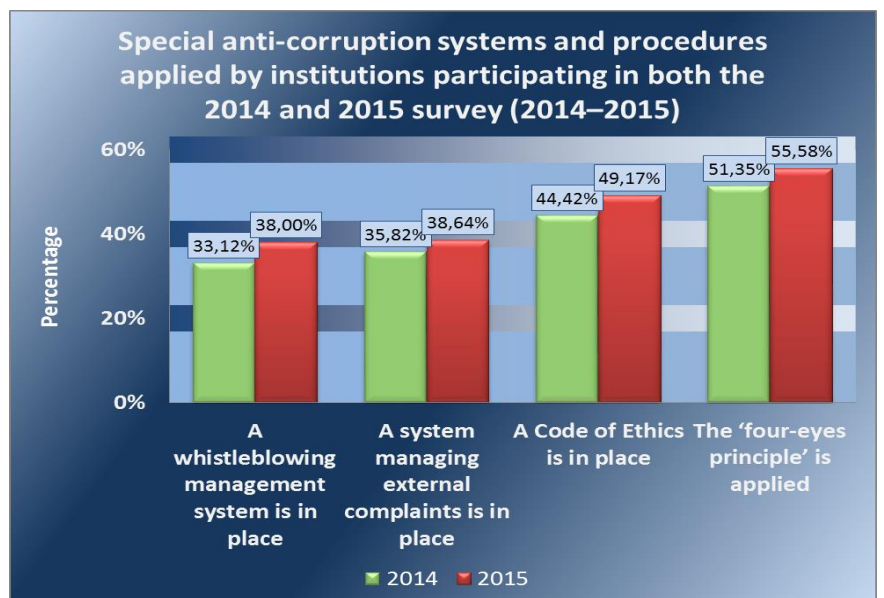
The number of organisations volunteering to participate in the 2015 survey was higher than ever before, 2,557 in total. The number of institutions participating in the survey increased sharply (134%) compared to 2011 participation data, which indicates that there is a growing number of institutions that consider the strengthening of integrity and the identification of corruption risks an important tool in the efforts to prevent corruption. Of the respondents, 2,172 organisations joined the Circle of Integrity Supporters. Participation data is shown in Figure 25.

Figure 25



Values calculated for all respondents point to a decline in corruption risks and at the same time, anti-corruption controls strengthened among the respondent institutions in the period between 2013 and 2015.

Figure 26



Owing to the increasingly widespread use of special anti-corruption systems and procedures, the level of control improved. Among other things, an increase could be observed in the ratio of Hungarian public sector institutions that operate a whistleblowing and external complaint system, enforce the 'four eyes principle', and have a Code of Ethics in place.

#### **New directions for the Integrity Survey: enterprises**

The State Audit Office began the development of a new set of instruments, which will be used to assess the corruption risks of state and local government-owned business associations and the coverage of controls serving to mitigate such risks.

#### **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. Since 2014, the SAO has integrated into a growing number of its audit programmes the tools that are intended to define vulnerability to corruption and the coverage of controls. The integrity-related findings of the SAO are also included in SAO reports.

# THE OPERATION AND DEVELOPMENT OF THE ORGANISATION

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*In 2011, in accordance with the extension of the Public Finance sections of the new Fundamental Law, the National Assembly strengthened the guarantees for the independence of Hungary's supreme audit institution, the State Audit Office. Simultaneously, the SAO commenced its organisational renewal from the aspects of accountability, transparency, quality control and ethical expectations and SAI utility. It is stated in the SAO's strategy that it facilitates the creation of the integrity based, transparent and accountable utilisation of public funds; it is a committed supporter of quality-oriented operation and it strives to prevent errors and deficiencies and to develop an organisational structure that is aligned to the tasks to be performed. The requirement of high quality is an integral part of all activities of the SAO, which has been integrated into the strategy, culture and operational procedures of the organisation. The highest level of professional quality cannot be achieved without the simultaneous renewal of the quality management system and the audit methodology. One of the first steps of organisational development was the strengthening of the internal control system, which ensured the monitoring of audits and provided an opportunity for support, intervention and the detection of systemic problems. Parallel to this, work commenced on the review and reorganisation of work processes, as a result of which the audit process has been divided into distinct phases, thereby optimising the utilisation of resources and increasing the objectivity of the final findings of the reports.*

## **1. Professional results supporting SAO operations**

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*In conjunction with the construction of the organisational framework, the requirement of high quality has been integrated into the strategy, culture, operational procedures and activities of the organisation. The emphasis shifted from quality-driven products to objective quality-driven processes and operation that ensure proficient execution and guarantee the quality of outputs.*

### **1.1. Methodological development**

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*Pursuant to Article 23 (1) of the SAO Act: 'The State Audit Office of Hungary shall work out the professional rules and methods of its audits for itself, and shall make those rules public'. In keeping with legislative requirements and the goals defined in its Strategy, the SAO executed a profound methodological changeover in 2015 by renewing the methodological principles aligned with audit objectives and audit tasks. In line with its strategy, parallel to the organisational renewal and the rethinking of its quality control processes, the SAO enhanced its methodologies continuously, and in the second half of 2015 it commenced the migration to its new report format.*

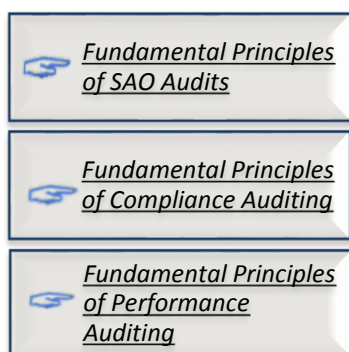
### The SAO's system of audit-specific professional regulations

The methodological background of SAO audits began with the adoption of the new SAO Act in 2011. The hierarchy of the governing international professional standards was set up in 2011–2012 which, at the same time, was a period of continuous preparations for the Hungarian adoption of the standards. INTOSAI, the international organisation of supreme audit institutions, adopted the fundamental principles of SAI audits in 2013 for specific audit types and set up the hierarchy of methodological documents. In 2013–2014, our organisation prepared for developing the general, as well as audit-specific fundamental auditing principles. The renewal and the July 2015 introduction of the fundamental auditing principles marked the end of the SAO's profound methodological changeover. The SAO's system of audit-specific professional regulations is presented in Figure 27.

Figure 27

The system of professional regulations of SAO auditing				
System of documents that represent the theoretical basis of audit-specific regulations			Governing ISSAI	
Level I	Lima Declaration		ISSAI 1	
Level II	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 III	Fundamental principles of SAO audits (SAI auditing standards)	Fundamental principles of SAO audits	General auditing principles	ISSAI 100
			Financial auditing principles	ISSAI 200
			Fundamental principles of performance auditing	ISSAI 300
			Fundamental principles of compliance auditing	ISSAI 400
		Implementation guidelines	Implementation guidelines for financial auditing	ISSAI 1000
			Implementation guidelines for performance auditing	ISSAI 3000, 3100, 3200
			Implementation guidelines for compliance auditing	ISSAI 4000, 4100
			Other guidelines	Other INTOSAI guidelines*

\* other four-digit INTOSAI guidelines



### Methodological developments in 2015

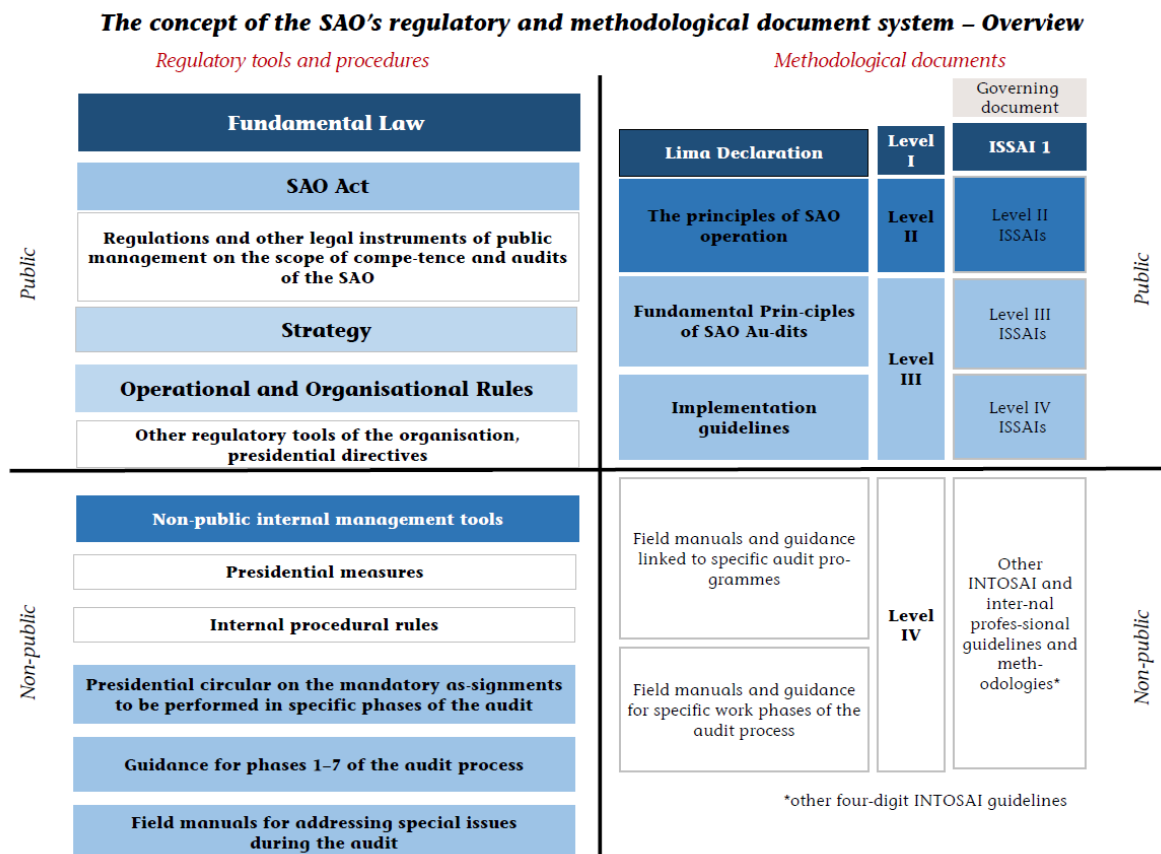
The renewal of the audit methodology of the SAO in 2015 commenced with the introduction of the methodological documents entitled 'Fundamental Principles of SAO Audits', 'Fundamental Principles of Compliance Auditing' and 'Fundamental Principles of Performance Auditing'.

Aspects to consider during the migration was the need to adjust to the scheduling of the renewal of international audit standards, changes in



the Hungarian legislative environment and feedback on the SAO’s audit experiences. The methodological development governed by the fundamental auditing principles developed by the INTOSAI is of key significance, as it sets public sector auditing on common professional grounds worldwide. Hungary was among the first nations to introduce the renewed national audit-specific professional principles. The system of the SAO’s regulatory and methodological documents is illustrated in Figure 28.

Figure 28



### What are compliance audits?

Compliance audits are understood as a specific audit type designed to determine whether the activities or operations constituting the subject of the audit – financial transaction, information and data – are in compliance, in all material respects, with the regulations and requirements relevant to the audited entity.

The *Fundamental Principles of SAO Audits* address both the general public (intended users of public funds, taxpayers) and auditors, provide guidelines for the audits conducted by the SAO and improve the transparency of the methodological background of the audits. By introducing compliance audits, the SAO has established an even broader audit-specific background in the area of the audit of the regularity of public spending. Within compliance audit, the SAO distinguishes between the sub-types of regularity audits (ascertaining compliance with legal provisions and other rules and arrangements) and propriety audits. Propriety audits are performed where legal provisions cannot be applied as a criterion, or where there are clear deficiencies in legislation to be able to judge certain issues. Propriety audits can be also conducted along the lines of general principles pertaining to the correct financial management of public institutions, to the effective and adequate use of public funds and to the conduct of public officials.

Through the use of performance audit principles, the SAO's audits can gauge the economy, efficiency or effectiveness of the management of public funds and public property.

The renewal of audit-specific professional standards entails the revision of the terminology used for audit purposes and the introduction of new audit-specific expressions.

### **The culmination of the renewal process – A new type of report**

As a result of the methodological renewal and the enhancement of the quality assurance system, the SAO issued its first report in the new format in the second half of 2015. The new report format was primarily intended to render the reports more user-friendly and to improve their clarity and understandability.

The overhaul of the format was based on the analysis of user requirements and international examples. The substantive elements of SAO reports are presented in a new order, equipped with informative titles and contents. Individual thematic units are clear and distinct. Thanks to the new editing format, users can reach the audit findings and conclusions faster, while the logical presentation of audit objectives, questions, answers and the substantiation of the answers ensures easy tracking. The clearly focused, easy-to-overview and structured appearance, the use of visual elements and the improved electronic applicability are intended to ensure that the SAO's reports are easy to read, user-friendly, impressive, easier to utilise and more effective.

At the same time, the gradual transition to the new format also serves the creation and reinforcement of a new type of audit approach; its new appearance is the culmination of the methodological development, while the practical enforcement of specific elements of the quality-driven operation becomes more effective.

### **The appearance of methodologies in audits**

Not only the renewal of the methodology, but also its application was a challenging task for the SAO; our audits have been conducted on the basis of the renewed methodologies since the second half of 2015. In addition, we developed new audit approach procedures and began the application of new technological solutions. The methodological development still continues.



## **1.2. Results of organisational development**

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*Parallel to the professional and methodological development of the organisation, in the previous year the SAO implemented a number of steps intended to improve efficiency. Their purpose was to facilitate the organisation's continuous development which, while relying on the values and achievements of the SAO, responds to the challenges posed by the legal and economic environment and social expectations.*

### **Matrix organisation operating on a project basis**

As a result of the review and reorganisation of work processes, the audit process has been divided into distinct phases, which optimises the utilisation of resources and increases the objectivity of the final findings of the reports, given that each phase and assignment yields a specific outcome in the established system.

### Benefits of a matrix organisation

- efficient use of human resources
- resource utilisation more aligned with changing circumstances
- knowledge of staff members with special expertise is readily available anywhere within the organisation
- ensures a framework for a self-training organisation
- protection against burnout from monotonous, dull work performance

In harmony with the transformation of the organisation's processes, a supporting matrix organisation has been established, capable of flexibly adjusting to changes and internal needs. Work is performed on a project basis to optimise resources: employees with the required professional competence are assigned to each individual task for the duration required for execution.

In addition to transforming the organisation's operational model, the SAO attaches great importance to improving the quality of the organisation's human resources. While project-based performance of work is a constant challenge for auditors – requiring continuous learning and self-training, the organisation itself advocates the training of employees.

Operating on a project basis, the matrix organisation provides the flexibility needed for the proper planning of tasks.

#### **Flexible resource management better aligned with audit requirements**

In accordance with its human resources strategy, the SAO understands the need for ensuring competence in the long run. In line with the principles of human resource management, it strives to assign the right person for the right task, at the right place and at the right time, for the duration needed. For systemic and integrated operations, in designing its human resource management the SAO equally considers the influential elements of the external environment and internal environmental impacts and features.

#### **Renewal and improved efficiency of Finance and Logistics**

The general task of information technology is to support the execution and enhancement of audit and analytical tasks, internal operations, the reduction of bureaucracy, organisational innovation and the required change management, while bearing in mind the aspects of data protection, security and reliability.

#### **Infrastructural developments**

Knowledge swiftly becomes obsolete in areas that change, develop quickly from an infrastructural perspective; therefore, it is particularly important to ensure that the organisation keeps abreast of the changes and renews its IT areas continuously. In 2015, the SAO implemented numerous IT projects designed to pave the way for the modernisation of the internal system.

#### **Economy of workstation operation**

In order to improve efficiency, a new remote management system was set up in 2015, which guarantees the adequate availability of server services while minimising human intervention.

#### **IT security, operational security**

The SAO, being subject to the provisions of Act L of 2013, strives to improve cybersecurity and to comply with the statutory regulations in this regard. The introduction of our monitoring system improved the security level of servers and, at the same time, the duration of failures and the response time to operational events shortened.

#### Improving user mobility

Auditor's are supplied with mobile internet devices, which greatly assist on-the-spot checks: auditors can access data required for their audits from the entire territory of Hungary.

Management mobility is boosted by the organisation-wide migration in 2015 to mobile devices for accessing internal mail. The service, however, is supplemented with security functions to prevent unauthorised access.

#### Development of intranet and internet services

In the first half of 2015, the SAO expanded its intranet system with several new services, while transforming its existing databases continuously to satisfy user requirements. In line with publication demands, the SAO renewed its homepage and the development of a new, cutting-edge website even more accommodating to user requirements is in progress.

### 1.3. Self-assessment and peer review

*With a view to enhancing its quality-driven operation, the SAO decided to evaluate, by international standards in the context of peer review, the innovations and methodologies introduced from 2010 under the SAO's value preserving renewal project and the achievements so far.*

#### What is self-assessment?

Self-assessment is a method of analysing the efficiency of the operation of an institution. In the context of the exercise, the institution performs self-assessment based on a pre-defined methodology, usually relying on its own internal resources. The ideal organisation regularly performs self-assessment, monitoring its activities and the feasibility of its objectives on a continuous basis. It strives to achieve the best possible operation by optimising its processes.



#### IT self-test – International role

In a sign of great professional recognition, the SAO has been requested to conduct an IT self-assessment exercise at two European supreme audit institutions. The SAO moderated self-assessment exercises at the Romanian SAI in Bucharest on 16–19 March 2015 and at the Georgian SAI in Tbilisi on 13–17 April 2015. A representative from the Swiss and the European SAI also participated in the work.

The self-assessments primarily focused on IT governance, IT management, investment and security issues. Resolutions to the issues were facilitated by international methodologies and the professional expertise of the moderators.

After the events, the Presidents of the Romanian and Georgian SAIs thanked the professional support of the SAO's president in writing.

The SAO expends great efforts in keeping abreast of the changes in an extremely rapidly developing IT environment and preserving the trust of society. In that spirit, the SAO implemented its own IT self-assessment – also in the framework of an international cooperation – on 28–30 October 2015. The professional moderators of the self-assessment were the Swiss and the Turkish SAIs, and the work was performed on the basis of the methodology developed by the EUROSAI. The adequacy of the current quality of IT audits and their development potentials comprised the two key aspects of the assessment through the evaluation of the five strategic areas defined by the methodology and detailed tests.

Based on the results, the international moderators emphasised that the SAO has explicitly solid grounds for IT audits, which is a good basis for increasing the SAO's participation both at the national and at the international level.

### What is peer review?

A performance assessment framework, which can be conducted by the SAI's (state audit offices) of different nations in accordance with the recommendations of the International Organisation of Supreme Audit Institutions, INTOSAI. Its purpose is to provide a comprehensive and comparative analysis on the effectiveness of the SAI's work in respect of a designated area, topic or method.

### Peer review of SAO communication

In 2014, we analysed the SAO's external communication activity in the context of self-assessment. The document constituted the basis for the commencement of the SAO's peer review in 2015. Based on established international cooperation, the peer review was performed by the communications experts of the Polish and Lithuanian SAIs.

The purpose of the exercise was to analyse and evaluate the SAO's communication activity and to review the external and external factors affecting communication, thereby ensuring the utilisation of the best international communication practices and ultimately, contributing to enhancing and optimising the processes related to the communication activity.

## 1.4. International activity

*In keeping with the SAO's Strategy, as in previous years, the institution played an active role in the international audit community in 2015. Its cooperative audits contributed to the exchange of international audit experiences. The President of the SAO attended several bilateral and multilateral events, and experts of the SAO provided professional contribution to the activity of international working groups.*



### International role

One of the most effective tools of the SAO's participation and the exchange of international experiences is to participate in cooperative audits. As coordinator, the SAO participated in the execution of the cooperative audit of the EU Contact Committee's Network on Europe 2020 Strategy Audit entitled 'Good practices on graduate career monitoring'. Consultations with the participating Romanian and Bulgarian SAIs commenced in 2015. In cooperation with the Croatian and Macedonian SAIs, the SAO conducted a parallel audit entitled 'Auditing of tourism development measures'. Work on the compilation of the joint publication commenced at the end of 2015. In 2015, the SAO also joined the coordinated audit of the EUROSAI IT working group on data protection.

Within the International Organisation of Supreme Audit Institutions (INTOSAI), the SAO participates primarily in the work of the subcommittees in charge of methodological development, while it has been participating in all working groups of EUROSAI, the European organisation of SAIs, since 2014. In addition, it participates in the work of several working groups of the EU Contact Committee. The SAO has been leading EUROSAI Goal Team 1 (Capacity Building) since June 2014.

In the interest of the implementation of Parliamentary Decision No. 41/2013 (V. 27.) on the acknowledgement of the report on the 2012 activity of the SAO, the SAO provided logistics support for the IT auditor training of the organisation operating within the INTOSAI in charge of the capacity building of developing countries (IDI), which was held in Budapest in September 2015.

To facilitate active international communication, the SAO also operates foreign language news portals, which ensures that the most important events concerning the SAO are available in English, German and French.

### What is the Goal Team?

The 2011–2017 Strategic Plan approved at the 2011 Lisbon Conference of the EUROSAI, the organisation defined its strategic objectives as well as the organisational structure required for their achievement. The EUROSAI set up independent units ('Goal Teams', i.e. working groups) to further the implementation of each strategic objective. Since the IX EUROSAI Congress (June 2014), the SAO has been in charge of the leadership of the EUROSAI Capacity Building Goal Team.

## 2. Organisational results supporting operations

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*In line with its Strategy, the State Audit Office of Hungary is committed to quality-oriented operation. Accordingly, the main organisational development objective of the SAO is to set up an optimal organisational structure aligned with the tasks to be performed. With that in mind, the SAO shapes and enhances its organisational structure continuously.*

### 2.1. Quality-driven operation and its venues

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*The fundamental values of the State Audit Office are independence, credibility, objectivity, a commitment to quality and, in relation to its own operation, economy, efficiency, effectiveness and sustainability. With our legal and compliance analyses, we wish to contribute to the SAO's sound professional stability and quality-oriented operation, and to the strengthening of independent auditor responsibility.*

#### **The quality control system**

The SAO has developed an efficiently functioning quality management system in recent years, the operation of which is ensured by multiple organisational units that are independent from one another both in terms of organisation and control. The two most important roles in maintaining and enhancing quality-driven operation are filled by the areas of quality control and legal compliance themselves. The former is in charge of the enforcement of quality management principles adopted in accordance with the guidance of international standards, while the latter is responsible for ensuring legal operation and activities.

#### **Quality control framework**

In December 2015, the State Audit Office adopted the document entitled 'The SAO's principles of quality-driven operation', the tenets of which were elaborated with regard to the 'Quality Control for SAIs (ISSAI 40)', the international standards issued by INTOSAI.

The quality control framework presented in ISSAI 40 covers the responsibility for the quality of management, ethical requirements, the acceptance and continuous maintenance of audit assignments, human resources, the execution of audits and other tasks and the monitoring of the quality-driven system.

Quality-driven operation is considered in all audits and reports of the SAO. In this context, during its 2015 operation the SAO tested the adequate operation of the established quality management system, as a result of which the quality management principles are highly enforced based on the assessment of the self-test.

#### **Legal/compliance analysis**

The first Operational and Organisational Rules issued after the adoption of the SAO Act in 2011 already included – in order to ensure the legality of operations and activities – provisions regarding legal/compliance audits. In recent years, parallel to the development of the organisation, the area of legal/compliance analysis has also changed and developed.

Within the organisation of the SAO, legal/compliance analysis is an autonomous area with independent responsibility and its task performance exerts an impact on the operation of the entire organisation.

Audit-specific and legal/compliance analysis regarding auditors' working documents is an element of quality-driven operation, which contributes to the SAO's ability to ensure the quality of SAO reports.

The utilisation of the experiences of compliance audits and the contents of the analyses contribute to enhancing the organisation's activity, increasing the quality of the SAO's basic task performance, and establishing an exemplary organisation.

## 2.2. Internal control system

*In performing its core task, the SAO audits the set-up and operation of the internal control system of budgetary institutions as a priority. Accordingly, it continuously evaluates and enhances accordingly, the operation of its own internal control system. The evaluation performed by the competent leaders in 2015 found that the SAO's internal control system had been set up and has been operating in accordance with – and adjusted to – strategic goals. The internal regulatory environment (control environment) is a strategic pillar 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 and reflects up-to-date controls.*



### Pillars of the internal control system

'Continuous organisational renewal' is a fundamental value in the SAO's Strategy, and the internal control system must also keep in step with these efforts. In conjunction with the organisational changes, we update and develop the control environment, the risk management system, control activities, the ITC system and the monitoring system on a continuous basis.

In the first quarter of 2016, based on the respective opinions of the competent leaders, the evaluation of the internal control system of the SAO was completed. The evaluation found that the SAO's internal control system had been set up and has been operating in accordance with – and adjusted to – strategic goals. They also stated that the measures taken in the spirit of continuous renewal implied a great step forward in the further enhancement of the internal control system's efficiency.

The **control environment** comprises internal regulations (directives, measures, policies) formulated on the basis of the main tasks of the organisation and clearly cover the entire scope of activity of the SAO, define the tasks, levels of responsibility, reporting obligations and auditing powers. The respective tasks of individual organisational units are defined by Rules of Procedure, of which audit trails form an integral part, thus ensuring the tracking and follow-up auditing of activities.

The tasks of senior officers and employees are detailed in job descriptions, and their organic parts: task allocating executive directives and job description supplements. Ethical expectations are laid down in writing.

### *What is risk?*

In the operation of the SAO, risk is understood as any event, circumstance, activity or negligence that might be detrimental to the SAO activity, financial management or ability to meet its strategic objectives.

In the interest of harmonising regulation and flexible work organisation, in 2015 approximately 60 internal regulatory instruments were updated. In an effort to rationalise processes and reduce bureaucracy, the SAO commenced the renewal of its system of internal regulations. With a view to ensuring the greatest possible coherence between internal rules, the SAO assigned priority to setting the rules on an adequate regulatory foundation, ensuring an identical level of regulation within the same level, putting in place a clear accountability system, applying uniform aspects and principles in developing the rules and a comprehensive approach in the maintenance of the management tools.

As part of its internal control system, the SAO continuously operates its risk management system.

The fundamental goal of risk management is to ensure, by identifying material risks surrounding the organisational objectives and by backtesting the results of the measures taken in the interest of risk management, the safe and efficient operation of the organisation in the face of the effects of various, unforeseen events. The risk management system of the SAO has three basic pillars:

- ✓ risks indicated by the heads of organisational units,
- ✓ risks indicated by audit managers,
- ✓ ad-hoc risk signals.

The SAO has a risk management policy in place. The events and risks jeopardising the strategic goals of the SAO are identified within the framework of the circular process of risk management. During the evaluation and management of risks, the person responsible for the risk identified is also determined. Besides the probability and effect of the emergence of the factors, the risk management process is concluded by re-evaluating the risk identified, evaluated and managed by the risk management process, and by evaluating the steps of risk management. The features of the risks are recorded in an institution-level risk registry, which serves as a basis for the next risk assessment cycle.

The enhancement of the risk management activity is a regular, annual activity, supported by feedback on experiences regarding the operation of the risk management system. The experiences and results of risk management are utilised by the organisation for the purposes of strategy reviews, organisational development, change management and planning.

The probability of the emergence of risks can be reduced in conjunction with **control activities**. Within the framework of control activities, the separation of tasks and powers within processes and their precise segregation contributed to the supervision and maintenance of control over processes, thereby significantly mitigating the probability of risks occurring. The 'four eyes principle' applied both in financial and real processes contributed to the continuity and control of task performance. Guiding controls supporting the audit (core) activity ensured the regular and adequate execution of the individual phases of the audit and the efficient performance of the related operation monitoring activity.

The SAO operates its **information and communication system** on the basis of bodies in charge of managerial support, information provision and pre-decision activities, and other forums.



### What is monitoring?

Monitoring keeps track of the implementation of multi-level organisational objectives, providing regular, structured, decision-supporting information to the leaders of the organisation with respect to relevant events and activities.

This system ensured the availability of information at the right time, in the right quantity and in the right quality, as required. The decision registration system linked to the information and communication system provided efficient support to the monitoring of the implementation of managerial decisions.

The **monitoring system** ensured – in accordance with the provisions of the administrative and technical regulations – the continuous control of the activities. The monitoring of the audit activities was carried out to an appropriate level of efficiency, based on the relevant controls.

During the course of internal control monitoring, the functionally independent **internal audit** evaluated the operation of risk management, audit and control procedures at regular intervals, thereby facilitating the efficiency of the SAO's control system.

## 2.3. Human resources achievements

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*Effective auditing demands an efficient organisation. Activities related to the SAO's auditing, analytical and advisory functions are supported by a consistent, up-to-date human resources policy. The items listed in the 2015 Training Plan supporting the strategic objectives of the State Audit Office are still relevant in the current reporting period, and they were implemented through practice-oriented training programmes building on the broad-based application of cutting-edge infocommunications tools. The State Audit Office uses an internally developed performance assessment system to support the institution's human resource management and the quality-oriented operation of the organisation at the highest possible level. Designed in line with the excellence-oriented organisational culture, the management youth training system essentially relies on internal human resources. All employees of the SAO have an opportunity to pursue a career within the organisation.*

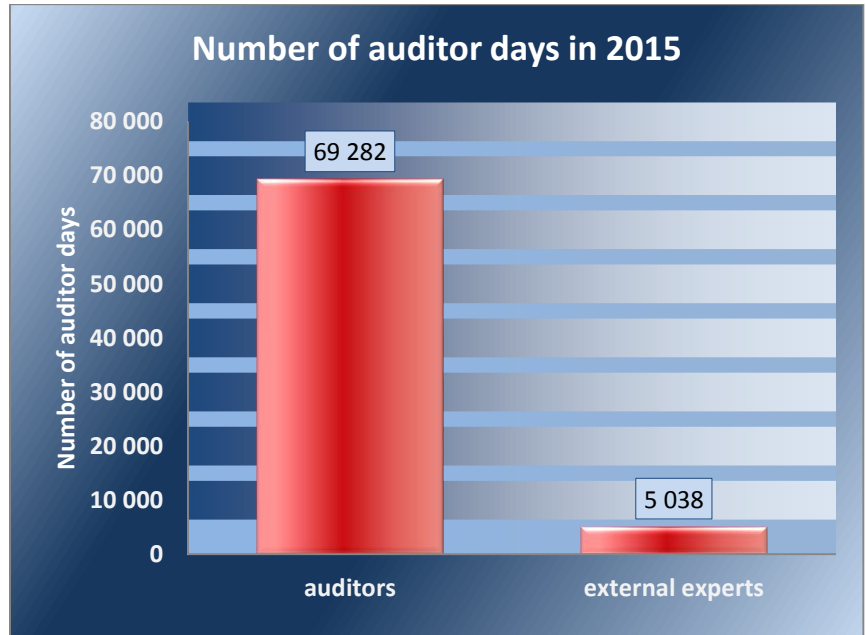
### Employment figures

The human policy plan of the organisation was developed in consideration of the SAO's human resources strategy, and thanks to its consistent implementation, by the end of 2015 the SAO operated at full capacity. One of the SAO's strategic objectives is to increase the number of audits performed, as well as the number of audit sites. Where it did not have adequate resources available with the required special expertise, it engaged external experts selected in tendering procedures. External experts were mainly involved in relation to the audits of campaign funds or the audits of business associations majority-owned by the state or local governments.

The ratio of employees with higher education degrees is high within the organisation, exceeding 90% in 2015 as well. As at the end of 2015, both the number and the ratio of employees with higher education degrees increased compared to the corresponding data of the previous year.

The number of auditor days related to the audits conducted is shown in Figure 29.

Figure 29



### Training system

In support of the organisation-wide implementation of the new methodologies developed in 2014, our employees received training primarily in small groups, at training sessions arranged in a classroom setting. Meanwhile, we also tried to take advantage of the benefits of e-learning. Training materials and field manuals were published in dedicated electronic databases available to all auditors and interns. This encouraged employees to enhance their professional skills in the context of self-training.

The SAO ensures a high participation rate at external professional conferences and events both in Hungary and abroad to support the high quality of work.

In selecting new employees, we apply a multi-step, competitive recruiting and selection system with integrated filters in order to ensure our flexible response to organisational needs as they arise and fill the available positions by selecting candidates with the highest available professional expertise and experience.

For the effective organisational integration of new entrants, the SAO operates a six-month long integration programme. As part of the programme, after acquiring basic theoretical skills, new colleagues are rotated at 4–6 week intervals to help them obtain as much professional experience as possible. We keep up-to-date records on their progress both in the theoretical and in the practice-oriented phase, and the record system can be customised according to individual training criteria. By the end of the integration period, new entrants acquire the required special professional and practical knowledge and they become full-fledged auditors.

### **Performance assessment**

In line with the project-based operation of our organisation, at least 4–5 times a year (and on a quarterly basis in the case of managers) our auditors receive a written evaluation/feedback after the conclusion of audit tasks regarding their professional performance and personal competencies and their level of compliance with the norms of behaviour expected of auditors.

The performance assessment system serves as an objective basis for defining the new directions of the training system, setting individual career paths and developing the management youth training system.

### **Management youth training system**

Employees can join the management youth training system on a voluntary basis through internal tendering and subsequently, selected by a multi-step filtering technique. Successful candidates will participate, alongside their regular task performance, in supporting the work of management and receive practical training through mentored task performance. The management youth training system plays an active role in increasing the SAO's responsiveness.

### **Internship programme**

As part of its corporate social responsibility, the State Audit Office runs an internship programme to help career starter graduates obtain professional work experience. In 2015, 25 young persons joined our organisation as interns. We engaged a total of 59 persons in our internship programme which, similar to recent years, was based on a balance between theoretical and practice-oriented professional guidance. We apply a rotation and a mentoring system to ensure that our interns acquire as much practical experience as possible, while their progress is monitored by an up-to-date record system. As in previous years, in 2015, auditor interns participating successfully in the mentoring system and performing with the required excellence during the 3 years of internship were provided the opportunity to stay in our employment, provided that they successfully passed the tendering procedure.

## **2.4. The effectiveness of financial management**

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*In accordance with its strategy, the SAO enforced the fundamental values of effectiveness, efficiency and economy in 2015 as well, which ensured sustainable development and the sparing utilisation of resources.*

### **Measures demonstrating the effectiveness of organisational operation**

In December 2011, in the area of financial management, the SAO launched a series of measures aimed at a more aware and more efficient use of resources, which led to the implementation of several measures improving efficiency. Continuing the series of measures, in 2014 the Finance Directorate implemented an organisational development project. The goal of the project was to increase the number business days available for auditing, the optimisation of work processes, and the reinvestment of the savings thus accumulated.



As a result of the measures, the operational processes of the Directorate were subject to due diligence, which revealed substantial savings within resources.

With efficient and disciplined financial management, the impact of the processes starting in 2014 – reinforced by further rationalisation of the operational processes – was fully perceived from the first half of 2015.

**Measures giving rise to an increase in available capacities:**

- ✓ Closely related to process optimisation, the more optimal use of human resources was another goal and accordingly, by realigning the tasks performed at the Finance Directorate, the number of positions decreased by 26.5%. Parallel to merging positions at the Directorate, there was a significant decline in the number of auditor positions. By 31 December 2015, the number of auditors employed at the Directorate fell by more than a half (40.3%) compared to January 2014. This increased both the ratio of auditors involved in audits within the organisation of the SAO and the number of business days available for auditing.

**Additional measures generating savings and supporting the audit work:**

- ✓ The decline in the staff number of the Finance Directorate and the change in the composition of employees generated savings in wage and contribution costs in the amount of HUF 14.6 million in 2014, and HUF 76.2 million in 2015.
- ✓ For the use of SAO staff visiting the Budapest office for work, we created a number of relaxation rooms in previous years, and their use reduced our expenditures for 2015 by HUF 12.7 million.
- ✓ After the consolidation of our low performance, high cost-per-page, expensively operating local printers, in 2015 we saved almost 15% in cost-per-page expenses.

Savings from the further rationalisation of operational processes were reinvested, particularly in the area of IT projects, supporting auditors' performance of work through the purchases of new equipment and through the creation of an ergonomic work environment.

**Measures of the Finance Directorate resulting in increased efficiency:**

- ✓ A new application was introduced in the finance/accounting area to improve the efficiency of financial management processes. The new software improved the ratio of electronic processing, eliminated data recording overlaps and improved the efficiency and level of automation of Treasury relations. By doing so, it helped minimise the risk of errors arising from manual recording. By allocating clearly distinguishable authorisations, with the use of the closed system the responsibility of users can be clearly defined and distinctly separated. At the organisation level of the SAO, migration to the new software ensures that the information supporting the work of management is delivered at the right time, in the right quantity and in the right quality to the recipients.

*What is the 'Economic Constitution'?*

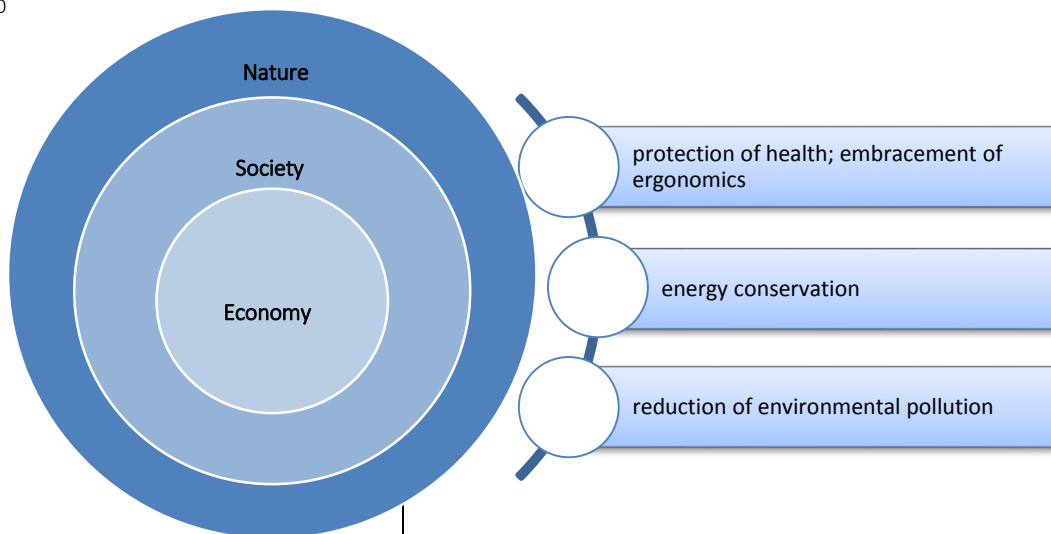
It sums up the statutory data reporting activities performed by the organisational units under the Finance Directorate towards external organisations broken down by deadline, responsible party and operating time.

- ✓ More predictable workflows and uniform procedures also support the efficient performance of work. The milestones in this process in 2015 were the compilation and maintenance of the Economic Constitution and the use of pre-designed, approved contract/purchase order templates. The standardisation of contracts related to the operation of the regional office network is in progress, which will support cost containment, while the yearly distribution of the hours spent on the settlement of accounts will render task performance more evenly distributed and more efficient.

### Sustainable development

In its Decision No. 18/2013 (III. 28.), the National Assembly launched the National Sustainable Development Framework Strategy, which connects the creation of the goods required to facilitate the financial, intellectual and spiritual well-being of all generations to four fundamental – human, social, natural and economic – resources. Sustaining, preserving and expanding these resources – with due consideration to both Hungarian and international aspirations – has become increasingly important in the auditing and financial management activity of the SAO. The SAO incorporated into its Strategy the concept of sustainability, and is committed to working continuously on achieving this objective both in the present and in the future.

Figure 30



With consideration to the appreciation of employees that characterises the SAO as an organisation and in line with the organisation's sustainability efforts, the SAO supports its employees – as the most important professional value, the holders of professional expertise – in preserving their health. The SAO arranges occupational health examinations and screenings for its employees, which focus on the prevention of illnesses or early discovery.

The SAO supports the health preservation of employees and their ability to achieve the highest performance level with an adequately designed work environment and by embracing ergonomics within the organisation.

Accordingly, in the 2015 investment plan it included purchases of ergonomic equipment (office furniture, monitors, portable PCs).

In the interest of the protection of natural resources, the organisation has taken several measures related to energy conservation and environmental protection.

With respect to activities supporting sustainable development, the organisation tends to maintain the measures adopted in previous years and it continuously seeks new possibilities to contribute to the preservation of the four basic resources. A harmonised renewal has recently started affecting the documentation system that stores audit data, the case monitoring system and the data request system. The primary goal of this project was the reduction of bureaucracy, organisational innovation, a more contemporary liaison with audited entities, and the reinforcement of data protection and security. Among the most recent IT trends, the SAO focuses its attention on paperless processing on the basis of electronic authentication, the quick and efficient processing of large volume data and the application of business intelligence systems.

# THE FINANCIAL MANAGEMENT OF THE SAO IN 2015

*The Report of the State Audit Office of Hungary on its financial management in 2015 is based on the data of its institutional budgetary statement prepared in accordance with the relevant legal provisions.*

## 1. Budgetary statement of the SAO

*The annual budgetary statement of the State Audit Office of Hungary as at 31 December 2015 has been audited by an independent chartered accountant selected and appointed by the Speaker of the National Assembly in a public procurement procedure. The audit included the sampling-based inspection of the invoices substantiating the factual figures of the budgetary statement; the evaluation of the applied accounting principles and the presentation of the annual budgetary statement; and the review of the internal regulatory environment.*

*Having reviewed the 2015 financial management of the State Audit Office of Hungary, the auditor found that the SAO's financial management was reasonable and cost-efficient, supporting the core activity, in compliance with the relevant legislation and internal policies. Based on the auditor's opinion, the annual budgetary statement provides a true and fair presentation of the execution of the 2015 budget of the SAO as well as on its financial position as at 31 December 2015 and the results of its financial management for the year then ended.*

### 1.1. Budgetary appropriations and their fulfilment

*Pursuant to Act C of 2014 on the 2015 central budget of Hungary, the National Assembly allocated HUF 8,324,500 thousand for the discharge of the SAO's duties, of which HUF 8,304,500 thousand was covered from budgetary subsidies and HUF 20,000 thousand from the SAO's own revenues.*

In complying with the provisions of Government Decree No. 368/2011 (XII. 31.) on the Implementation of the Act on Public Finances, as a result of adjustments realised during the subject year under various titles and in an amount of HUF 1,039,545 thousand, the amount of original expenditure and revenue appropriations increased to HUF 9,364,045 thousand, as shown in Figure 31:

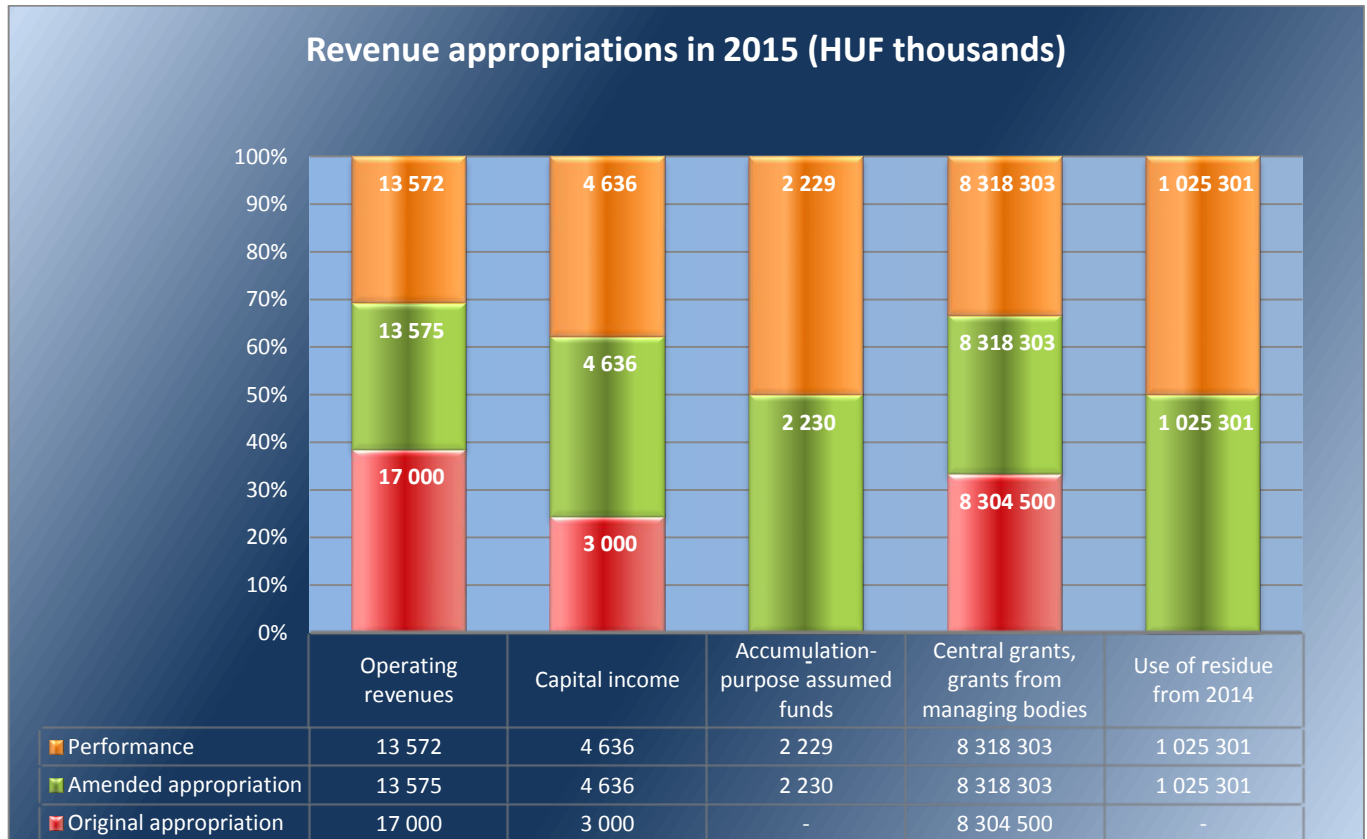
Figure 31



### Revenues

Of the revenue appropriations, the amount of central grants, grants from managing bodies was budgeted as HUF 8,304,500 thousand and the budgeted amount of the appropriations of operating revenues and capital income was HUF 20,000 thousand. Grants rose by HUF 13,503 thousand during the year, mainly reflecting grants requested for wage compensation and bonus years.

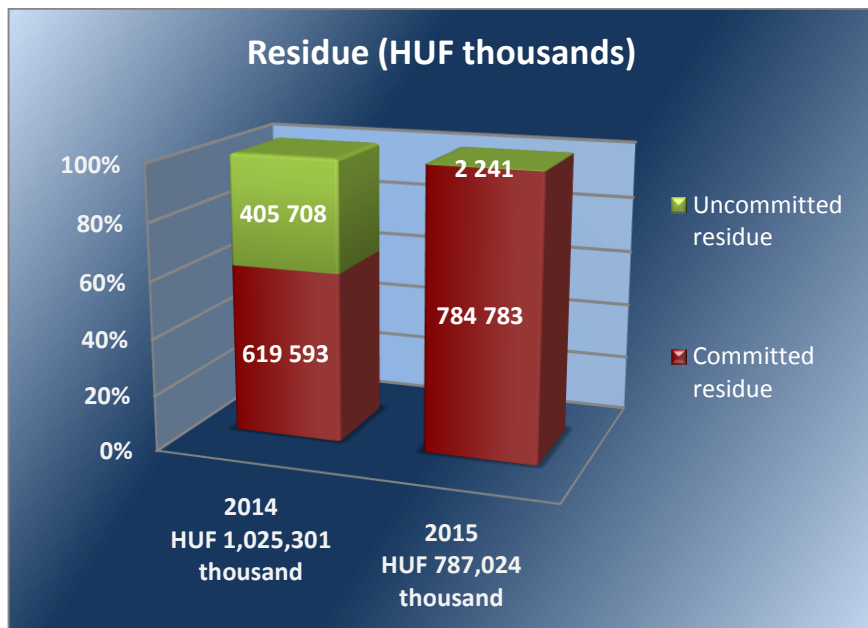
Figure 32



The amount of residue generated in the reporting period of 2015 was HUF 787,024 thousand, of which committed residue amounted to HUF 784,783 thousand (99.7%), and uncommitted residue came to HUF 2,241 thousand. Residue from the previous year raised the original appropriation by HUF 1,025,301 thousand, of which HUF 276,816 thousand was paid into the central budget and, pursuant to Section 1.5 of Government Decision No. 1779/2015 (X. 27.), HUF 128,892 thousand was reallocated to the Ministry of Foreign Affairs and Trade chapter for participation in the donor programme. Under the authorisation granted by Decision No. 41/2013 (V. 27.) of the National Assembly, the State Audit Office of Hungary participates in the INTOSAI Development Initiative (IDI) donor programmes. One of the IDI's task is to help SAIs in the national adoption of international standards, the development of institutional, organisational and professional personnel capacities and knowledge sharing with regard to good practices. Due to its training activity serving the responsible management of public finances, its promotion of an integrity-based administrative culture and the support and training provided by it to national SAIs, the SAO considers the activity of the IDI extremely important.



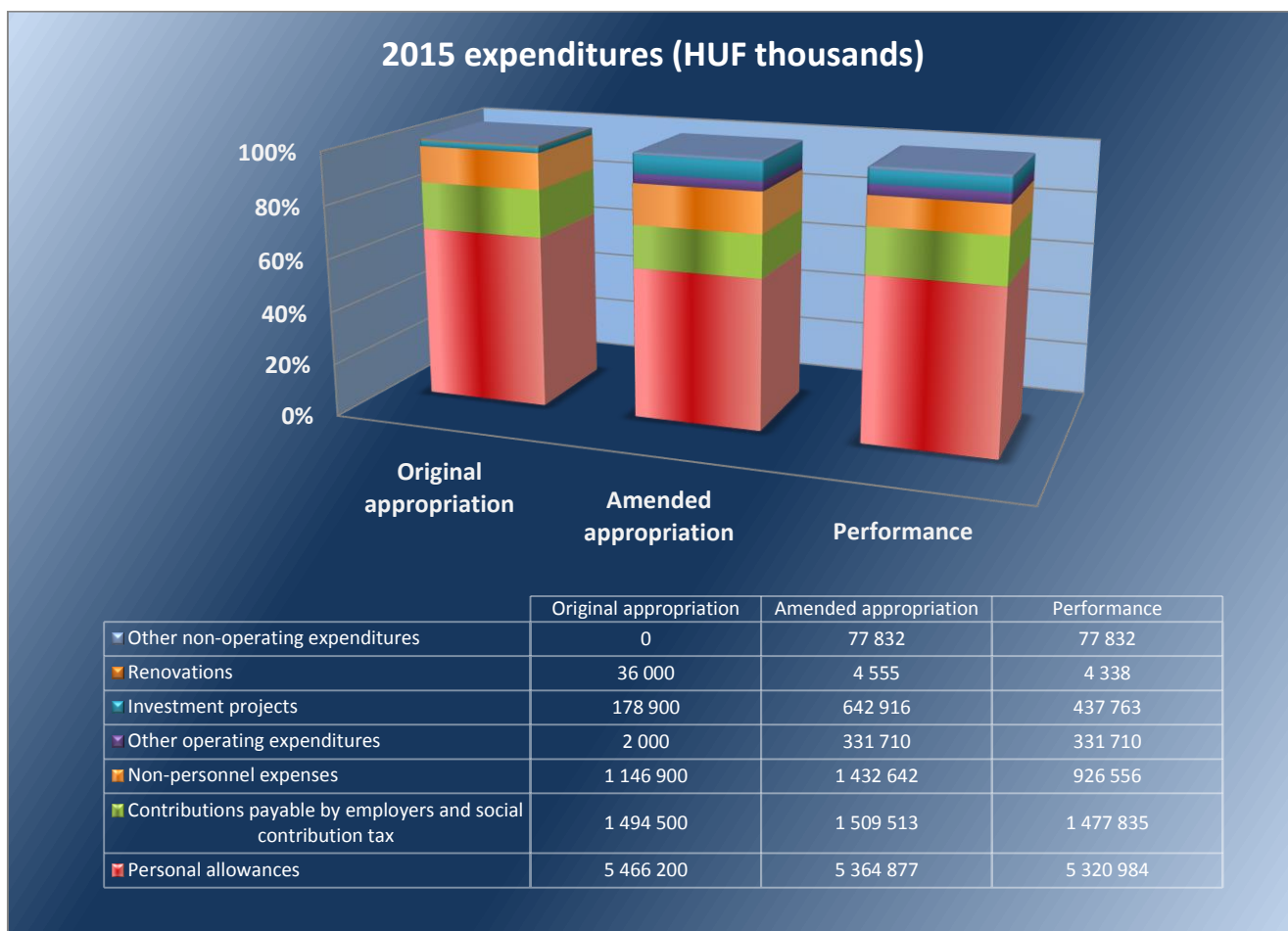
Figure 33



### Expenditures

In 2015, substantial modifications to priority expenditure appropriations were effected under the titles of accumulation expenditures and other operating and accumulation.

Figure 34





The modified expenditure appropriation for 2015 was fulfilled at 91.6% (HUF 9,364,045 thousand). Of the fulfilled expenditures, the share of personal allowances and contributions payable by employers was 79%, of non-personnel expenses 11%, of other operating expenditures 4% and of renovations and other non-operating expenditures a total of 6% together.

In 2015, the distribution of the average statistical number of employees was as follows: auditors and public servants 514 persons, employees subject to the Labour Law 50 persons, elected officials 2 persons.

# ANNEXES

## ■ ANNEX 1: THEMATIC AUDITS AND LEGALITY AUDITS OF PARTIES AND PARTY FOUNDATIONS

### 1. Audit of the financial management of higher education institutions (21)

- 15025 [Eötvös József College](#)
- 15026 [College of Kecskemét](#)
- 15028 [College of Nyíregyháza](#)
- 15029 [Budapest Business School](#)
- 15030 [Kaposvár University](#)
- 15032 [Corvinus University of Budapest](#)
- 15033 [Liszt Ferenc Academy of Music](#)
- 15034 [Óbuda University](#)
- 15035 [University of Szeged](#)
- 15036 [University of West Hungary](#)
- 15039 [Szent István University](#)
- 15040 [College of Dunaújváros](#)
- 15041 [National University of Public Service](#)
- 15042 [Károli Gáspár University of the Reformed Church in Hungary](#)
- 15043 [University of Theatre and Film Arts Budapest](#)
- 15045 [Moholy-Nagy University of Art and Design Budapest](#)
- 15047 [Pázmány Péter Catholic University](#)
- 15053 [Semmelweis University](#)
- 15063 [University of Pécs](#)
- 15071 [University of Debrecen](#)
- 15072 [Eötvös Loránd University](#)

### 2. Audit of the financial management and property management of specific institutions of the central subsystem (3)

- 15147 [National Ambulance Service](#)
- 15161 [Coordination Centre for Transport Development](#)
- 15162 [Institute of Geodesy, Cartography and Remote Sensing](#)

### 3. Audit of the set-up of the internal control system of local governments and the audit of the operation of various control activities and internal audit (18)

- 15049 [Dorog](#)
- 15050 [Szigetszentmiklós](#)
- 15051 [Hajdúszoboszló](#)
- 15052 [Aba](#)
- 15060 [Dunaföldvár](#)
- 15061 [Elek](#)
- 15062 [Simontornya](#)
- 15074 [Révfülöp](#)
- 15075 [Maklár](#)
- 15077 [Álmosd](#)
- 15078 [Nyírmada](#)
- 15090 [Mályi](#)
- 15098 [Beloianisz](#)

15099 [Somogyhatvan](#)

15101 [Bagamér](#)

15103 [Gádosos](#)

15104 [Berzence](#)

15105 [Pári](#)

**4. Regularity audit of the financial and property management of local governments (7)**

15150 [Baktalórántháza](#)

15151 [Orosháza](#)

15186 [Ajka](#)

15187 [Vác](#)

15201 [Hajdúböszörmény](#)

15202 [Marcali](#)

15213 [Pécel](#)

**5. Regularity audit of the property management of local governments (3)**

15010 [Municipality of Budapest, 5th District, Belváros-Lipótváros](#)

15011 [Municipality of Budapest, 8th District, Józsefváros](#)

15012 [Municipality of Budapest, 14th District, Zugló](#)

**6. Audit of the financial management of local ethnic/minority self-governments (26)**

14225 [Lepsény – Roma](#)

14227 [Dunaharaszti – Polish](#)

14228 [Békés – Roma](#)

14229 [Abaújszántó – Roma](#)

14230 [Óbuda-Békásmegyer – Gypsy](#)

15003 [Nagydobos – Gypsy](#)

15096 [Bagamér – Roma](#)

15097 [Beloianisz – Greek](#)

15102 [Mezőcsát – Gypsy](#)

15107 [Gádosos – Roma](#)

15108 [Berzencei – Roma](#)

15125 [Kompolt – German](#)

15126 [Baktalórántház – Roma](#)

15130 [Pári – German](#)

15131 [Pári – Roma](#)

15146 [Kompolt – Roma](#)

15163 [Somogyhatvan – Roma](#)

15164 [Orosháza – German](#)

15165 [Orosháza – Roma](#)

15168 [Sajókaza – Roma](#)

15169 [Piliscsaba – Slovakian](#)

15170 [Piliscsaba – German](#)

15171 [Piliscsaba – Roma](#)

15177 [Kistolmács – Roma](#)

15178 [Lovászipatona – Gypsy](#)

15179 [Pusztamagyaród – Roma](#)

**7. The audit of national minority self-governments (13)**

- 15123 [Rusyn National Self-Government](#)
- 15132 [Armenian National Self-Government](#)
- 15133 [Ukrainian National Self-Government](#)
- 15148 [Romanian National Self-Government](#)
- 15152 [Roma National Self-Government](#)
- 15153 [Bulgarian National Self-Government](#)
- 15154 [Polish National Self-Government](#)
- 15155 [Greek National Self-Government](#)
- 15156 [Slovenian National Self-Government](#)
- 15157 [Serbian National Self-Government](#)
- 15158 [German National Self-Government](#)
- 15159 [Slovakian National Self-Government](#)
- 15160 [Croatian National Self-Government](#)

**8. Audit of the property management activities of state-owned forestry companies (22)**

- 15188 [Ipolyerdő Zrt.](#)
- 15189 [Egererdő Zrt.](#)
- 15190 [Mecsekerdő Zrt.](#)
- 15191 [SEFAG Zrt.](#)
- 15192 [Gemenci Erdő Zrt.](#)
- 15193 [Északerdő Zrt.](#)
- 15194 [Pilisi Parkerdő Zrt.](#)
- 15195 [Szombathelyi Erdő Zrt.](#)
- 15196 [Kisalföld Zrt.](#)
- 15197 [Zalaerdő Zrt.](#)
- 15198 [KEFAG Zrt.](#)
- 15199 [VADEX Zrt.](#)
- 15203 [Bakonyerdő Erdészeti és Faipari Zrt.](#)
- 15204 [Vértesi Erdészeti és Faipari Zrt.](#)
- 15205 [DALERD Délalföldi Erdészeti Zrt.](#)
- 15206 [NEFAG Nagykunsági Erdészeti és Faipari Zrt.](#)
- 15207 [NYÍRERDŐ Nyírségi Erdészeti Zrt.](#)
- 15208 [Gyulaj Erdészeti és Vadászati Zrt.](#)
- 15209 [TAEG Tanulmányi Erdőgazdaság Zrt.](#)
- 15210 [VERGA Veszprémi Erdőgazdaság Zrt.](#)
- 15211 [Budapesti Erdőgazdaság Zrt.](#)
- 15212 [KASZO Erdőgazdaság Zrt.](#)

**9. Audit of the asset preservation and financial management activities of state-owned (or partly state-owned) business associations (6)**

- 15093 [Radioaktív Hulladékokat Kezelő Közhasznú Nonprofit Korlátolt Felelősségű Társaság](#)
- 15095 [Magyar Közút Nonprofit Zártkörűen Működő Részvénytársaság](#)
- 15100 [Nemzeti Kataszteri Program Nonprofit Korlátolt Felelősségű Társaság](#)
- 15134 [Nemzeti Útdíjfizetési Szolgáltató Zártkörűen Működő Részvénytársaság](#)
- 15135 [NISZ Nemzeti Infokommunikációs Szolgáltató Zártkörűen Működő Részvénytársaság](#)
- 15176 [Nemzeti Infrastruktúra Fejlesztő Zártkörűen Működő Részvénytársaság](#)

**10. Audit of the performance of public functions by companies majority-owned by local governments (44)**

- 14233 [Városgondozási Zrt. \(Gyöngyös\)](#)
- 14234 [TiszaSzolg 2004 Közszolgáltató, Vagyonkezelő és Gazdaságfejlesztő Kft.](#)
- 14235 [Záhonyi Hőtermelő és Távhőszolgáltató Korlátolt Felelősségű Társaság](#)
- 15001 [Kerepesi Községközszolgáltató Közhasznú Nonprofit Kft.](#)
- 15002 [Oroszlányi Szolgáltató Zrt.](#)
- 15004 [Gödöllői Távhőszolgáltató Kft.](#)
- 15005 [Cellenergo Energiatermelő és Távhőszolgáltató Korlátolt Felelősségű Társaság](#)
- 15006 [BTG Budaörsi Településgazdálkodási Nonprofit Kft.](#)
- 15007 [Bátonyterenyei BÁVÜ Városüzemeltetési Nonprofit Kft.](#)
- 15008 [Demecseri Városgazda Szolgáltató Közhasznú Nonprofit Kft.](#)
- 15009 [Csongrádi Víz- és Kommunális Szolgáltató Kft.](#)
- 15014 [Szegedi Környezetgazdálkodási Nonprofit Kft.](#)
- 15015 [Szegedi Hőszolgáltató Korlátolt Felelősségű Társaság](#)
- 15016 [ÖKO-DOMBÓ Dombóvári Környezet- és Hulladékgazdálkodási Kft.](#)
- 15017 [BÁT-KOM 2004. Városüzemeltető és Szolgáltató Kft.](#)
- 15018 [NYÍRTÁVHŐ Nyíregyházi Távhőszolgáltató Kft.](#)
- 15019 [CSORNAHŐ Csornai Hőszolgáltató Kft.](#)
- 15020 [BIOKOM Pécsi Városüzemeltetési és Környezetgazdálkodási Kft.](#)
- 15021 [PRIMER Ajkai Távhőszolgáltatási Korlátolt Felelősségű Társaság](#)
- 15022 [Szigetvári Távhő Szolgáltató Nonprofit Korlátolt Felelősségű Társaság](#)
- 15027 [Gyömrő Városi Település Üzemeltető és Fejlesztő Nonprofit Kft.](#)
- 15058 [PÉTÁV Pécsi Távfűtő Korlátolt Felelősségű Társaság](#)
- 15064 [Komlói Fűtőerőmű Zártkörűen Működő Részvénytársaság](#)
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- 15067 [VÜZ Keszthelyi Városüzemeltető Egyszemélyes Nonprofit Kft.](#)
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- 15087 [VKSZ Veszprémi Közüzemi Szolgáltató Zrt.](#)
- 15088 [Halasi Városgazda Beruházó, Szolgáltató és Vagyonkezelő Zrt.](#)
- 15089 [Váci Távhőszolgáltatási Kft.](#)
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- 15139 [Patakhő Energiaszolgáltató Nonprofit Kft. \(Sárospatak\)](#)
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2.	<a href="#">Summary study on the results of the 2015 Integrity Survey</a>	T/392
3.	<a href="#">Audit experiences of waste management and district heating companies majority-owned by local governments; Certain elements of the financial management of a district heating company in majority local government ownership in the light of utility cost reduction</a>	T/391
4.	<a href="#">Study on the overview and evaluation of EU transfers to Hungary in the 2007–2013 EU budget period</a>	T/389
5.	<a href="#">Annexes and Appendices to the Study on the overview and evaluation of EU transfers to Hungary in the 2007–2013 EU budget period</a>	T/389-1
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18.	<a href="#">Analysis on the results of the 2014 Integrity Survey in the institution group of primary schools</a>	T/378
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20.	<a href="#">Analysis on the results of the 2014 Integrity Survey in the institution group of institutions of higher education</a>	T/374
21.	<a href="#">Analysis on the results of the 2014 Integrity Survey in the institution group of defence and law enforcement</a>	T/373
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■ ANNEX 3: AUDITOR'S REPORT

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INDEPENDENT AUDITOR'S REPORT

Msz.: 4-05401  
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V.1.1.

INDEPENDENT AUDITOR'S REPORT  
and  
SUMMARY FOR THE SPEAKER OF THE PARLIAMENT  
on  
the review of the 2015 annual budgetary statement  
of the budget heading for the State Audit Office of Hungary

PREPARED BY:



Dialog Plusz Audit Könyvvizsgáló Kft.  
H-1137 Budapest, Katona József u. 14.  
Telephone: +36 1 236 3090, +36 1 320 5569  
Fax: +36 1 329 3653  
Email: [audit@dialog.hu](mailto:audit@dialog.hu)  
Website: [www.dialog.hu](http://www.dialog.hu)

Budapest, 23 March 2016

**INDEPENDENT AUDITOR'S REPORT****to the management of the State Audit Office of Hungary  
Report on the 2015 annual budgetary statement**

We have audited the accompanying 2015 annual budgetary statements of the budget heading for the State Audit Office of Hungary, which comprise the following statements:

- the 2015 budget report, according to which the realised budgetary expenditure at the heading level is HUF 8,577,018 thousand, and the realised budgetary revenue is HUF 9,364,041 thousand;
- residue statement, according to which total residue is HUF 787,024 thousand;
- data reporting; as well as the balance sheet statement prepared for 31 December 2015, where the equal amount of assets and liabilities is HUF 4,223,711 thousand; a profit and loss statement for the year then ended where the profit and loss according to the balance sheet is HUF -229,934 thousand; statements per specialised task on costs and recovered costs; and the notes on the accounts.

**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 the 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 management deems to be 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 audit in accordance with the 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.

The audit involves performing procedures in order 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 preparing such 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 under the given 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. 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 2015 annual budgetary statement of the State Audit Office of Hungary, along with all sections and items (budget report, residue statement, balance sheet, profit and loss statement, statement on costs and recovered cost, notes on the accounts), and their accounting and book-keeping confirmation.

We conducted our audit in accordance with the 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 2015 budget of the SAO, as well as on its financial position as at 31 December 2015 and the results of its financial management for the year then ended.

Budapest, 23 March 2016



  
András Villányi  
Managing Director  
Dialog Plusz Audit Könyvvizsgáló Kft.  
H-1137 Budapest, Katona József u. 14.

MKVK registration number: 000088

  
Ágota Gáspárné Farkas  
Audit Manager  
chartered accountant  
MKVK (Chamber of Hungarian Auditors)  
membership no.: 002289

**SUMMARY FOR THE SPEAKER OF THE PARLIAMENT****1. General information****1.1. The assignment and its delivery**

The Speaker of the Parliament appointed Dialog Plusz Audit Könyvvizsgáló Kft. to audit the budgetary statement of the State Audit Office heading (hereinafter: SAO) drafted for the balance sheet date of 31 December 2015. In reviewing the budgetary statement, we considered the following statutory provisions:

- Act CXCV of 2011 on Public Finances (Act on Public Finances)
- Act C of 2000 on Accounting (Act on Accounting)
- Government Decree No. 368/2011 (XII. 31.) on the Implementation of the Act on Public Finances
- Government Decree No. 4/2013 (I. 11.) on the Accounting of Public Finances
- Act LXVI of 2011 on the State Audit Office of Hungary (Act on the SAO)
- Act C of 2014 on the 2015 Central Budget
- Decree No. 38/2013 (IX. 19.) NGM of the Minister of National Economy on the mandatory accounting of certain economic events frequently arising in public finances
- Act LXXV of 2007 on the Chamber of Hungarian Auditors, the activities of auditors, and on the public oversight of auditors, and
- Decree No. 10/2013 (III. 13.) NGM on the institutional budget

The results of our audit are summed up in this auditor's summary. The staff of the SAO made available all required documents, the requested information and accounting records, and provided us with all other information that we deemed necessary.

We performed the audit with due consideration to the SAO's financial audit methodology, the quality control policy and approved audit programme of the Chamber of Hungarian Auditors, drawing on the practical experiences of reliability audits. In the course of our work, we ascertained the validity of the items included in the statement by reconciling the general ledger inventories with the analytical records corroborating the statement; in addition, we applied random sampling supported by a computer programme to select from the population of accounting records. We performed a comprehensive audit on the selected items, supplementing the audit with the evaluation of our analytical procedures.

The audit was performed by chamber member (membership no. 002289) Ágota Farkas Gáspárné, chartered accountant.

We believe that our work provides an adequate basis for formulating our audit opinion and issuing an opinion.

## 1.2. Overview of the budget heading

### 1.2.1. Legal background

- Name of heading: State Audit Office of Hungary
- Registered seat: H-1052 Budapest, Apáczai Csere János utca 10.
- Foundation: pursuant to Act XXXVIII of 1989 on Public Finances
- registration number: 324766
- statistical code: 15324762-8411-311-01,
- tax ID no.: 15324762-2-41,
- social security number: 91111,
- Public Finance ID: Áht. 033572,

### 1.2.2. Economic background

As part of its public duties, the SAO performs audit tasks, issues recommendations and provides opinions, as specified in detail in the Deed of Foundation of the SAO.

The SAO does not pursue business activities.

The SAO is vested with the task of executing external audits, promoting the transparency and accountability of the use of public funds and public assets. As the supreme audit institution of the public sector, in discharging its duties it is vested with general powers. In its organisational operations, in developing the professional rules and methods of the audits performed and during the execution of the audits, the SAO considers domestic and international professional recommendations, guidelines and standards to be authoritative. The President is responsible for the continuous update and publication of auditing rules and methods.

By disclosing its audit experiences and by enhancing and publishing its audit methodology, the SAO supported the implementation, operation and enhancement of internal control systems in the budgetary area. Other activities of the organisation – beyond its strictly interpreted audit responsibilities and powers – include various mandates and tasks prescribed by the Fundamental Law, the Act on the SAO and other legal regulations.

In 2014, it updated its accounting policy and the relevant regulations comprehensively, implemented the provisions defining the operational rules of public finances and public finance accounting, identified the book-keeping and reporting tasks and the persons assuming responsibility for their performance. Of the policies addressing economic subjects, only the Public Procurement Policy and the Operational and Organisational Rules changed considerably in 2015.

The State Audit Office of Hungary does not use mark-to-market valuation. The State Audit Office as an economic entity and its chapter-managed appropriation prepare their own balance sheets, which constituted the basis of the chapter-level statement.

In 2015 there was no turnover on the chapter-managed appropriation.

As regards its programmes related to international relations, in its 2015 financial management the SAO strived to use the approved budgetary appropriations sparingly and efficiently, reducing costs.

The IT developments, asset purchases and building renovations of the SAO in 2015 were intended to facilitate higher-quality audit work and to put in place a contemporary technical basis for the SAO's activity.

- *Events following the balance sheet date*  
Up until the balance sheet date, no factors or information came to our attention that might restrict or jeopardise the SAO's activities. Accordingly, based on the data available, it has the capacity to sustain its operations, and the principle of going concern is satisfied.
- *Accounting policy*  
The State Audit Office of Hungary has all of the accounting policies prescribed by law at its disposal; it has updated the relevant policies with the legislative changes adopted in 2014 in accordance with the special traits of its own activities and organisational characteristics, and it pursues its accounting administrative activity accordingly. The internally developed accounting information system meets both the requirements of management and the information needs of the data reporting system.

The budgetary statement was compiled in accordance with the provisions of the Act on Accounting and of the regulations on the reporting and book-keeping obligations of budgetary institutions; reasons for deviation from the provisions of the law have not arisen.

Updated in 2014, the SAO has policies and instructions at its disposal affecting the work of the economic area, audits and accounting regularity, as follows:

- Asset Management Policy
- Cash Management Policy
- Assets and Liabilities Evaluation Policy
- Stocktaking Policy

Even more significant than the updating of the policies are the software developments carried out in 2015 in support of the work of the Finance Directorate, which greatly assist the work of the Department of Finance and Accounting, the Department of Labour and Wage Accounting, and – with the analytical records – the Department of Asset Management and Operation by automating processes that had been previously performed manually.

In 2015, the SAO enhanced its *general ledger accounting and analytical records systems* with the introduction of a new software. By taking recourse to the support service of the "KOR IKM module" of Griffsoft Informatikai Zrt., the "FORRÁS SQL" system has been implemented to provide assistance in meeting reporting obligations. As the migration took place during the year, it entailed a substantial amount of additional work, but it was completed smoothly with the assistance of the consulting firm.

“Personal allowances”, which account for 81% of the cost composition stated in the profit and loss account and represent the largest amount among the budgetary expenditures was a key area of the audit. The recognition and accounting of this item will be assisted, in part, by a 2015 software development. *Another module* of the already successfully applied *NEXON labour and wage accounting system* has been purchased, which renders the manually performed accounting of commuting, automobile use and domestic assignments more accurate, simple and controllable.

## 2. The assets and financial position of the SAO as at 31 December 2015

### 2.1. General findings

The general ledger statement reflects the data of the State Audit Office of Hungary economic entity as at 31 December 2015. The closing of the general ledger fully includes the valuations, qualifications and reclassifications required to be performed at the end of the year.

Data included in the SAO's financial statements were supported by a matching general ledger statement, reconciled analytical records, inventories and accounting records selected by sampling.

### 2.2. Assets and financial position (balance sheet)

In accordance with the balance sheet items stipulated by Government Decree No. 4/2013 (I. 11.) on the Accounting of Public Finances and with the report template for budgetary institutions, the budgetary statement of the SAO has been drawn up in the structure and content required by law by the appropriate deadline.

The balance sheet total declined by 0.39% compared to the previous year, as discussed in detail in the subsections of Chapter 2.2.

#### 2.2.1. Presentation of fixed assets

2.2.1.1. Stated as HUF 213,985 thousand, net value of *intangible assets* corresponds with the analytical records; the accounting of current year depreciation complied with regulations.

The value of concessions and similar rights accounts for 98.6% of this asset group, while intellectual property comprises the rest. IT developments were implemented in line with the project plans defined in the detailed IT strategy.

2.2.1.2. The value of *tangible assets* as stated in the balance sheet was HUF 3,178,671 thousand, which is confirmed by analytical records. The accounts on tangible assets were in line with the statutory requirements in all inspected cases. Land and buildings and rights to immovables constitute 89.59% of tangible assets.

As a result of depreciation, despite ongoing renovations, the net value of the land and building stock was down 0.78% compared to the previous year.

The inventory count of tangible assets on the balance sheet day was performed in accordance with the Stocktaking Policy of the SAO by the staff of the Department of Asset Management and Operation in the newly



introduced FORRÁSDOTNET.FND tool's analytical records module. The IT support and external consulting assistance required for the inventory count was provided, in accordance with the contract, by Griffsoft Informatikai Zrt. Inventory inspectors supervised compliance with internal regulations. The assessment of the inventory count, the reconciliation, accounting and justification of minor deviations comply with legal regulations and the internal policies.

#### 2.2.2. Presentation of current assets

- 2.2.2.1. As in previous years, the 2015 SAO statement does not include *stocks*; in line with the practice introduced in the previous year, contracted suppliers ensured continuous replacements without stockpiling, as needed.
- 2.2.2.2. In the case of *liquid assets*, the value of HUF 753,447 thousand stated in the balance sheet corresponded to the statement dated 31 December 2015 for each settlement account on record, as did the HUF 0 closing balance of cash on hand to the closing balance of the cash position report for the period.
- 2.2.2.3. At HUF 12,314 thousand, *claims* rose by 1.38% compared to the previous year. The invoices for 2015 December supporting trade receivables had been all paid by the balance sheet date except one frustration penalty claim amounting to HUF 1,709 thousand. Outstanding claims for 2015 were stated at a value recognised by the partner as per the consultation at the end of the year. The stated balance sheet value is consistent with the analytical records. The items of the balance sheet row presenting claims due for the fiscal year for funds for accumulation are consistent with the analytical records and include outstanding short-term housing loans to employees. There were no grounds for recognising any impairment.

#### 2.2.3. Presentation of other specific asset-side accounts, accrued and deferred assets

According to the accounting records, the recognition of HUF 35,543 thousand in the row of *accrued and deferred assets* is justified in every case; the items stated correspond to the amounts indicated in the accounting records and the data are presented in the breakdown stipulated by law.

*Other specific asset-side accounts* amount to HUF 29,751 thousand, comprising vouchers purchased for distribution among employees, passes, cash substitutes and intra-month payments related to employees for the month of December 2015.

#### 2.2.4. Presentation of equity capital

The SAO stated its *equity capital* amounting to HUF 3,526,200 thousand as at 31 December 2015 in accordance with regulations, calculated from the initial value of national wealth, changes in national wealth, the initial value of other assets, accumulated profit/loss and balance sheet profit/loss with the contents stipulated by Section 14 of the Government Decree on the Accounting of Public Finances.

### 2.2.5. Presentation of liabilities

Among its liabilities, the SAO has recorded *liabilities* amounting to HUF 67,966 thousand payable in the fiscal year and amounting to HUF 553 thousand becoming due in the year following the fiscal year.

Liabilities payable in the fiscal year comprise HUF 1,762 thousand for personal allowances, HUF 92 thousand for contribution payable by employers, HUF 21,986 thousand for non-personnel expenses of accounts payable and HUF 43,911 for investment expenditures.

Liabilities becoming due in the year following the fiscal year are composed of HUF 29 thousand for personal allowances, HUF 206 thousand for non-personnel expenses and HUF 318 thousand for investment.

The amount stated under liabilities as at the balance sheet date is consistent with analytical records; the State Audit Office had performed its payment obligations by the deadline, before the cut-off date.

Liabilities dropped by 33.72% compared to the previous year.

2.2.6. *Other specific liability-side accounts* were not recognised on 31 December 2015.

2.2.7. *Accrued and deferred liabilities* include accrued expenses and expenditures amounting to HUF 622,382 thousand, and deferred accrual-based income amounting to HUF 6,610 thousand. The calculation of accrued and deferred liabilities was substantiated by the analytical records.

### 2.3. Budgetary appropriations in the current year

The report on the performance of the appropriations included in the forms constituting a part of the budgetary statement – K1–K8 budget expenditure appropriations – B1–B7 budget revenue appropriations – B8 financing revenues – was compiled in accordance with the provisions of the Government Decree on the specific reporting rules of budgetary institutions.

The original appropriation for chapter-level budget expenditures was HUF 8,324,500 thousand, which, as a result of interim amendments, rose to HUF 9,364,045 thousand. Actual performance was HUF 8,577,018 thousand.

The original appropriation for budget revenues was HUF 20,000 thousand, which, as a result of interim amendments, rose to HUF 20,441 thousand. Actual performance was HUF 20,437 thousand.

The original appropriation for financing revenues was HUF 8,304,500 thousand at the chapter level, which, as a result of the use of residue, rose to HUF 9,343,604 thousand. Actual performance was HUF 9,343,604 thousand. The revenues and expenditures performed were also stated as a government function.

#### 2.4. Residue statement, profit and loss account

In line of the above, residue from core activity amounted to HUF 787,024 thousand, of which HUF 784,783 thousand is committed residue and HUF 2,241 thousand is uncommitted residue.

The amount of the accrual-based revenue of HUF 8,337,361 thousand was reduced by material costs of HUF 715,558 thousand, personnel costs of HUF 6,858,473 thousand, depreciation charge of HUF 315,904 thousand and other expenditures of HUF 599,702 thousand. The 2015 accrual-based activity of the SAO generated an ordinary loss of HUF 152,276 thousand and, due to an extraordinary loss of HUF 77,658 thousand, it resulted in a balance sheet loss of HUF 229,934 thousand.

The ordinary loss was due to the repayment of uncommitted residue from 2014 recognised under other expenditures, while the extraordinary loss resulted from the repayment of the cumulative residue unused in 2014, recognised under non-repayable assistance provided within public finances for accumulation in the amount of HUF 77,832 thousand.

#### 2.5. Notes on the accounts

Constituting a part of the budgetary statement of the SAO, the content and the structure of the *notes on the accounts* essentially comply with the relevant provisions of the government decree on the specific reporting rules of budgetary institutions and of the provisions of the Act on Accounting applicable in 2015.

The notes on the accounts presented supplementary information regarding developments in the stocks of intangible assets and fixed assets and in personal allowances.

The average annual statistical number of employees was 566 persons; at the end of the year, the labour law closing headcount of actual employment was 590 persons.

### 3. The SAO's accounting and financial regularity and its level of organisation

The financial and economic activity of the SAO is pursued within the framework defined by external statutory regulations and supported by internal policies. The policies reviewed as part of the audit comply with the prevailing legal requirements. Presidential Instructions are continuously updated to ensure up-to-date information. As regards the policies, the formal requirements of their entry into force are ensured.

The policies amended in 2015 were discussed in detail in Chapter 1.2.2 of our report.

### 4. Internal control

Bearing in mind the requirements of regularity, economy and efficiency, the SAO operates a strong internal control system to manage risks and to improve the efficiency of the management of resources.

Independent internal audit and integrated financial management control are elements of this process.

Reporting directly to the President and independent of operational functioning, an internal control organisation is in place. With a view to ensuring organisational and functional independence, auditors responsible for internal audit tasks report directly to the President in the context of annual reports.

Internal audit performed its auditing activity for 2015 on the basis of the work plan approved by the President of the SAO.

Based on the annual internal audit plan, we found that audit tasks in the reporting period were defined in accordance with the strategic audit plan, in consideration of the priorities reflecting the assessment of risk factors and of the internal auditor capacities actually available. Based on internal auditor's reports, we ascertained that the tasks specified in the work plan have been executed. By the time of our audit, the recommendations of the internal auditors with respect to the deficiencies detected had been implemented. We have reviewed pre-decision working papers and action plans.

During our work, we took into consideration the internal auditor's findings regarding the audit areas affecting accounting, which we also considered to be a priority (audit of cash on hand, use of company vehicles, comprehensive audit of public procurement covering two years).

#### **5. Regularity of fiscal management**

During our audit, in accordance with the Financial Audit method, we qualified the regularity of the financial management of the State Audit Office in the current year on the basis of the items in the sample selected with the assistance of the IDEA programme.

We inspected the consistency of the budgetary statement with a new audit software supporting quality control, developed specifically for fiscal management.

In determining the materiality threshold, we took into account the detection risk value determined by the inherent, internal and audit risk.

We defined the sampling size required to achieve a 95% assurance on this basis. We supplemented this methodology with analytical procedures conforming to the Auditing Standards of the Chamber of Hungarian Auditors, the definition of priority audit areas and risk evaluation at the level of assertions, for which the use of audit tables and the audit software provided an adequate foundation.

Given that the activity of the State Audit Office is among the areas that draw particular public interest, the materiality threshold we defined was far lower than the average.

Based on the above, the sampling exceeded the usual sample size. Given that we have not found any material misstatement in the audited items, we concluded that the economic activity of the State Audit Office of Hungary in 2015 complied with legal regulations.

Office of the National Assembly of Hungary **Independent Auditor's Report**  
H-1358 Budapest, Széchenyi rkp. 19.

Msz.: 4-05401  
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## 6. Summary:

Having reviewed the 2015 financial management of the State Audit Office of Hungary economic entity, in summary, we found 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 budgetary appropriations and in compliance with regulations and internal policies.

The 2015 budgetary statement provides a true and fair view of the assets and the financial standing of the State Audit Office of Hungary.

Budapest, 23 March 2016



**András Villányi**  
Managing Director  
Dialog Plusz Audit Könyvvizsgáló Kft.  
H-1137 Budapest, Katona József u. 14.

MKVK registration number: 000088

**Ágota Gáspárné Farkas**  
Audit Manager  
chartered accountant  
MKVK (Chamber of Hungarian Auditors)  
membership no.: 002289

STATE AUDIT OFFICE OF HUNGARY

H-1052 Budapest, Apáczai Csere János utca 10.

Postal address: H-1364 Budapest 4. Pf. 54.

Telephone: +36 1 484 9100 Fax: +36 1 484 9200

[www.asz.hu](http://www.asz.hu)