



STATE AUDIT
OFFICE OF HUNGARY



SUMMARY REPORT

for the National Assembly on the
Professional Activity and Operation of the
State Audit Office of Hungary in 2017

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László Domokos
President

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FOREWORD BY THE PRESIDENT

Dear Reader,

It is with great pleasure that I present you the report on our institution's professional activities and operation in 2017 in a new, updated format that makes our report even more transparent and reader-friendly than before.

In keeping with our traditions, I would like to give an insight into the declared endeavours of the State Audit Office of Hungary in consideration of the focal activities and performance of the organisation, while also providing an overview of its future perspectives. Our approach remains the same: SAO audits are activities focused on past events; however, the evaluation of the auditing experience is future-oriented; it lays the foundation for the decisions prompted by the audit processes. In light of the 2018 parliamentary elections and the formation of the new National Assembly, the operational framework and mandate of the SAO, the performance-based presentation of its mission and the societal utilisation of its annual work were given special significance in this year's report.

The State Audit Office of Hungary, as the supreme financial and economic audit organisation of the National Assembly, is a key independent institution of the democratic state organisation. Its mission is to promote the transparency of public finances through value creating audits performed on a solid professional basis, thereby contributing to the operation of the well-managed state. In line with its legal status and mission, it is perhaps one of the most important duties of the SAO to harness its expertise in order to support the legislative activity of the National Assembly. I believe, it is important to emphasise that the State Audit Office of Hungary is an office, not an authority or a court. It does not sanction or regulate, nor does it make decisions in legal matters or conduct investigations. However, in case of irregularities or suspected crime, it notifies the competent authority or files charges. In its publicly available reports, the SAO formulates findings and recommendations.

As a cornerstone of its independence, the State Audit Office of Hungary develops its own audit policy and methods. The SAO follows the international standards and recommendations in establishing and applying its professional audit rules, and takes into consideration the constitutional and statutory requirements applicable to the operation of the State Audit Office of Hungary and the Strategy and mission of the SAO, as well as its internal operational rules. The SAO, therefore, performs its work in compliance with Hungarian regulations but also in consideration of the international environment.

The SAO performs its work based on a semi-annual audit plan and systematic analysis. This systematic technology enables the SAO to comply with its statutory obligations and, at the same time, to identify focal points based on the results of risk assessment – some of which have been targeted on the same areas for years. Another essential part of the work relies on risk assessment and evaluation results. It is intended to enable users – i.e. society, legislation – to put into focus systemic, typifiable, recurring problems and hence, facilitate the operation of the well-managed state. The completed, synthesising evaluations sum up years of audit and analysis experience, with which the organisation explicitly intends to support the work of the National Assembly and the Fiscal Council.

By way of its audits and the consequent recommendations, and by way of the evaluation of the action plans compiled by the audited organisations in response to the recommendations, the SAO primarily supports the regular and transparent use of public funds and public property. At the same time, our audit work also seeks to encourage the effective, efficient and economic utilisation of public funds.

The SAO's audit activity has been dynamically broadening in recent years. Legislative acts

and National Assembly resolutions constitute an ever-expanding framework around its operating areas. The trend presented in each annual report is, to a great extent, the product of the SAO's explorations, findings and advisory work. Already included in the 2016 report, textboxes entitled the "SAO's proposals" also appear in the 2017 publication. They are intended to draw attention to systemic problems and change requests and to convey our comments to the legislator.

Besides our primary auditing function, our advisory and opinion-forming function is also increasingly coming to the foreground. This function is intended to improve the transparency and effectiveness of the use of public funds by way of the SAO's analyses, studies, opinions and wide-ranging knowledge sharing activity, and to contribute to the more efficient operation of public finance areas and institutional systems providing public services. In this context, the SAO's analyses concerned several areas in 2017, including the graduate career tracking system, the Hungarian research/development and innovation system, municipality waste management companies and city museums with county rights. The SAO supported the work of the Fiscal Council with numerous fiscal and macroeconomic analyses, while several analyses were prepared under the Integrity Project – an initiative dedicated to mapping corruption risks with a focus on corruption prevention.

As the law provides ample leeway with respect to our advisory activity, the SAO has developed its own model for the support of good governance. As part of this activity, strengthening the integrity and enhancing the management of general government organisations, as well as state and local government-owned companies were priority topics in 2017. With its advisory activity and the transfer of good practices at various events and via publications, the SAO focuses on the prevention of problems with a view to minimising societal costs.

In the course of its audit work and analyses, the SAO placed special emphasis on factors that have a negative effect on Hungary's competitiveness, such as the internal control issues of the institutional systems, corruption risks and the potential lack of transparency, while also taking into account the positive changes, such as the beneficial effect of the reduction of the debt-to-GDP ratio and the improvement in the fiscal balance. The strict legal regulations on SAO audits provided a sufficient basis for eliminating the lack of consequences in audits. The growing number of follow-up audits also facilitate the elimination of deficiencies.

In recent years, the National Assembly has passed numerous resolutions entrusting the State Audit Office of Hungary with specific tasks that have determined the SAO's goals and their implementation to a great extent. This includes, for example, taking preventive action against corruption by disseminating the culture of integrity both in the Hungarian public sector and on a global scale. In 2017, we continued to enhance our Integrity Project: we involved new institutions in our surveys, and shared our methods and results at the international level; consequently, they are now being utilised by other SAOs in several foreign countries. The maintenance period of integrity surveys is over; the results have been summarised and numerous utilisation areas have been identified.

Also on the basis of a Parliamentary resolution, we committed ourselves to the enhancement of public sector management. Laying the foundations of public finance leadership training and commencing the training in practice are important tools in this endeavour. In the interest of public finance education, in 2017 the SAO launched a leadership training programme for museum directors, and in 2018 it will include other areas and institution groups of public finance in its ethical public finance leadership programme. In its audits, the SAO evaluated the performance of public sector leaders according to a complex criteria system. Moreover, we enabled numerous SAO auditors to obtain their degrees under the further training programme launched in conjunction with the University of Miskolc in 2016 for the purpose of training public service performance analysts.

In accordance with the National Assembly's resolution, in 2017 we continued to play an active role in initiatives aimed at increasing the financial (public finance) awareness of the Hungarian population, and contributed to the formulation of a national strategy for the enhancement of financial literacy, which was adopted in 2017. Once again in 2017, we elevated financial-economic (public finance) topics to a scientific level by cultivating Public Finance Quarterly, our public finance periodical looking back on more than half a century. With the approval of our 2016 report, in June 2017 the National Assembly requested the



State Audit Office of Hungary to continue pursuing our activities aimed at the methodological revision of the audit system of public finances, and to continue contributing to the methodological development of auditing entities performing audits in the system of the general government through our audit findings and analysis-based experience. I believe that the General Assembly's resolutions and requests can also be viewed as a form of recognition of the work performed by our institution.

The quantification of our 2017 results reveals that the 2017 performance of the State Audit Office of Hungary was remarkable in terms of the number of reports published: 251 reports were drawn up on the audits completed in relation to 874 audited entities. Based on this volume of work, the SAO issued 1,546 recommendations and sent 102 warning letters to audited entities. Based on the recommendations issued, the SAO commented on 560 action plans prepared by the audited entities, thereby supporting the best possible utilisation of the recommendations. By completing such audits, the State Audit Office of Hungary fulfilled its statutory obligation.

In addition to enhancing the audit process, improving efficiency in operating the organisation is another central issue for the State Audit Office of Hungary. I am convinced that only high-quality work and tight controls can create value with results that can be utilised. Consequently, quality-controlled operations are assigned a high priority both in the operation of the organisation and in the audit process.

The State Audit Office of Hungary's unchanged objective is to make the management of public assets, the operation of public services and the economic management of public funds more transparent, straightforward and effective. Simultaneously, the SAO places its own operations in the framework of the same transparency: its audit plan is publicly available, and the operation and processes of the organisation are continuously communicated. High quality, controlled, back-tested and transparent work is also a pledge for the adequate efficiency of the capacities that also provides an opportunity for the improvement of performance.

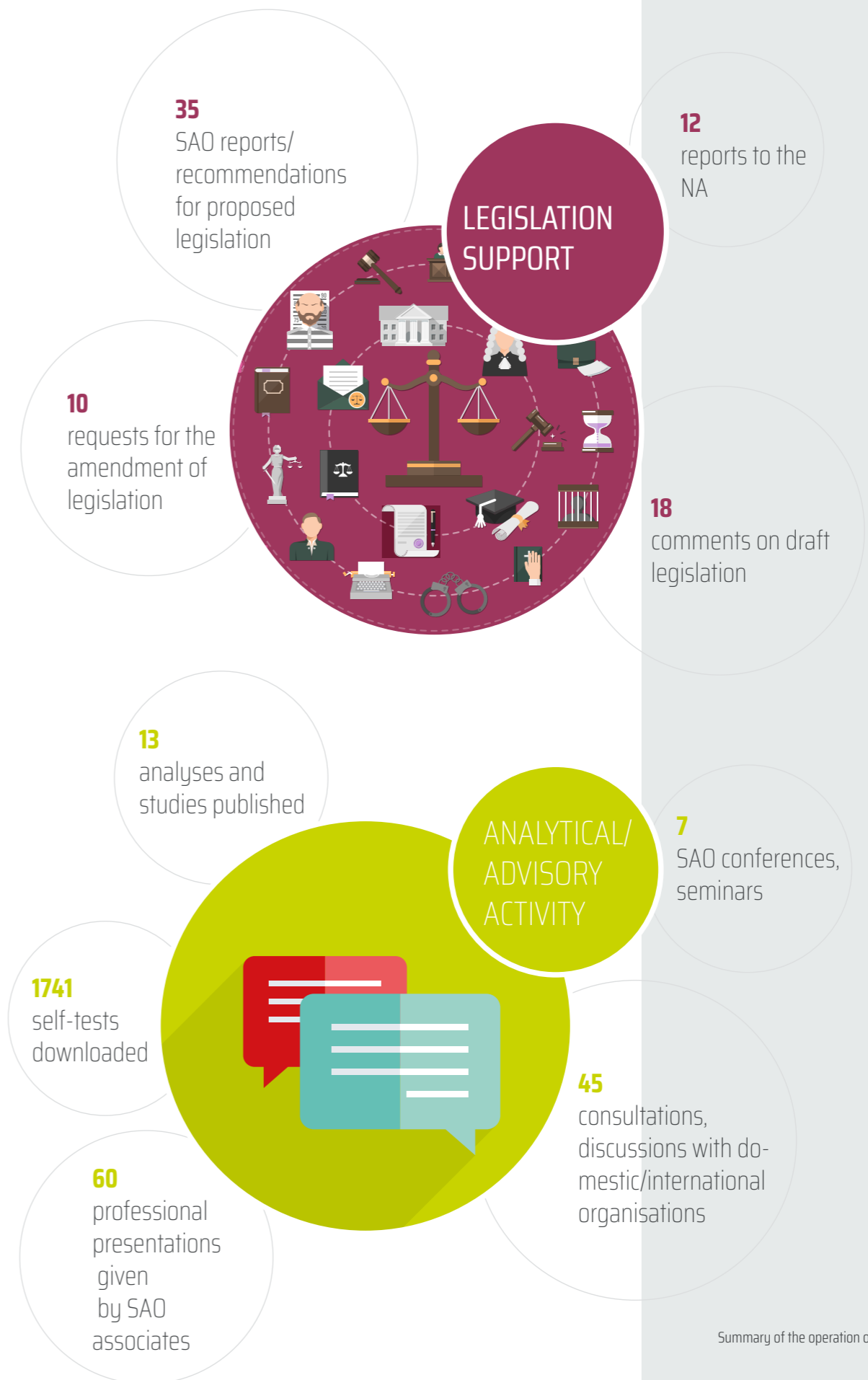
I believe that the activity and reputation of the State Audit Office of Hungary guarantee that the efforts to establish order in public finances are successful. It is my conviction that it is not only the objective that matters but also the road to achieving it: the tasks performed transparently and in high-quality provide a basis for the successful accomplishment of the objectives set in the SAO's mission and, since foresight makes the world move forward, also contribute to development.

László Domokos
President
State Audit Office of Hungary

SUMMARY OF THE OPERATION OF THE SAO



Results of the previous year



2017
251 reports
 2013-2017
1157 reports
 1994-2012
1089 reports

AUDIT OUTPUTS



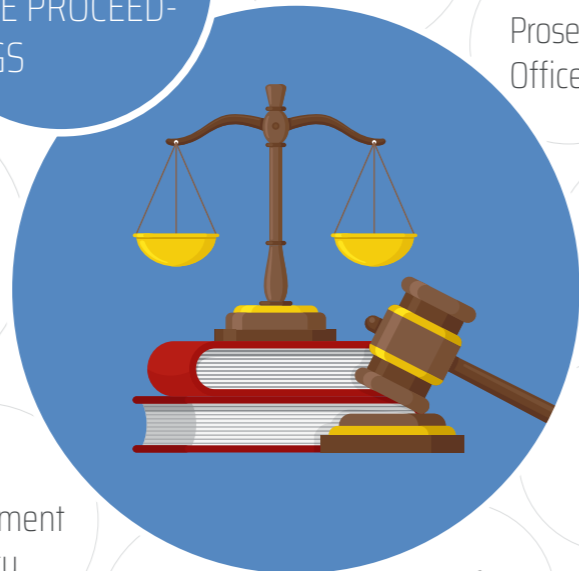
1546
 proposals

874
 audited entities

560
 evaluated action plans

102
 warning letters

INITIATION OF ADMINISTRATIVE PROCEEDINGS



257
 initiations of proceedings

Chamber of Auditors

Public Prosecutor's Office

other bodies

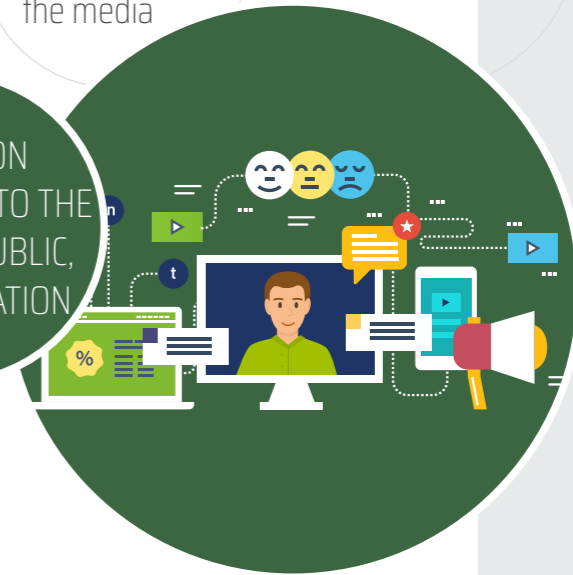
NTCA

Public Procurement Authority

Government Office

Court of Registration

INFORMATION PROVISION TO THE GENERAL PUBLIC, COMMUNICATION



2006
 news items on the SAO's news portal

7342
 news items in the media

Leading by example in transparency

122
 electronic press conferences

5.0%
 Companies in majority local government ownership

24.0%
 Companies in majority state ownership

0.5%
 Non-governmental human service providers (foundations/associations)

28.1%
 Central budgetary institutions

AS A PERCENTAGE OF THE NUMBER OF AUDITABLE ENTITIES

AUDIT COVERAGE IN 2017

AS A PERCENTAGE OF THE ASSETS OF AUDITABLE ENTITIES

54.4%
 Local governments

Specific events of the previous year



ETHICAL PUBLIC FINANCE LEADERSHIP – SEMINARS, TRAINING COURSES

The State Audit Office of Hungary and the University of Miskolc have held a seminar under the title “Ethical Leadership, Integrity and Performance Management in the public sector”. The two organisations launched a joint public service analyst training programme in September 2016. In September 2017, we contributed to the development of ethical public finance management by announcing another course. The two institutions have launched a training programme for the leaders of public sector institutions. The good practices seminar entitled “Ethical Leadership, Integrity and Performance Management in the public sector” was supplemented by a 50-hour training module designed primarily for museum directors.



RENEWAL OF PUBLIC SECTOR MANAGEMENT – LATEST STEPS

The State Audit Office of Hungary evaluated the specific activities of the executive officers of state and local-government owned companies and central budgetary institutions in the framework of management performance evaluations. With the professional input of the National Bank of Hungary, in 2017 the SAO published a book entitled “Management in the Service of Public Good”, intended for the management of organisations using public funds. The purpose of the book is to share the latest knowledge on management, organisational science and financial management with a focus on organisational integrity, while bearing its public service mission in mind.



STRENGTHENING FINANCIAL AWARENESS

A priority area of the SAO’s corporate social responsibility is the enhancement of financial awareness among the Hungarian population, with special regard to finances, public finance and the sharing of public dues, and in parallel with this, to improving the attitudes towards and forms of behaviour related to (public) finances. In 2017, the SAO contributed to this goal in various ways, for example, through its contribution to the formation of a national strategy intended to improve financial literacy; recruiting voluntary auditors for disseminating financial literacy under the Ambassadors of Financial Literacy programme; financial literacy survey; educational videos, presentations.



IN FOCUS: LARGE INVESTMENT PROJECTS

The State Audit Office of Hungary organised a professional workshop, discussing international audit experiences on large investment projects. The two-day event was attended by SAI experts from five countries, and several Hungarian partner organisations and ministries also delegated their representatives. The purpose of the knowledge-sharing seminar was to map out the integrity risks associated with large public investments and to precisely identify controls for the prevention of corruption risks.

IMPROVING ACCOUNTABILITY

Through its proposals and by initiating legislative amendments based on its audit experiences, the SAO supported the formulation of high-quality legislation aiming to improve accountability.



INTEGRITY – MORE IN-DEPTH KNOWLEDGE TRANSFER

In 2017, the SAO conducted its seventh annual Integrity Survey, the purpose of which is to provide feedback on public sector institutions’ exposure to corruption risks, as well as the levels of controls that serve to manage corruption risks. Last year a heretofore unprecedented number of public institutions – a total of 3,346 – participated in the survey.

In October 2017, the State Audit Office of Hungary and Corvinus University of Budapest published a special issue of the journal Public Economy (Köz-gazdaság). The special issue presented the latest results of Hungarian integrity research. For the fourth time in 2017, the SAO organised its now traditional International Anti-corruption Seminar. Attended by 40 representatives delegated by supreme audit institutions from 25 countries, the topic of the event was “Public Sector Integrity and Ethical Leadership”. Participants were given insight into the “Hungarian model” of the fight against corruption, the methodology behind the SAO’s integrity survey. Following the anti-corruption seminar, the SAO also organised an international integrity workshop for a smaller group of participants in order to transfer more in-depth knowledge. Participants of the workshop received guidance on the introduction of the integrity project in their own countries.



ACTIVE INTERNATIONAL ROLE

– DEVELOPMENT OF KNOWLEDGE PRODUCTS

It is indicative of the SAO’s international recognition that, following the 2017 Congress of the European Organisation of Supreme Audit Institutions (EUROSAI), the SAO contributed to the implementation of the 2017-2023 strategy of EUROSAI by setting up and heading two new project teams dedicated to disseminating the culture of integrity and to the utilisation and transparency of the audit work. Besides integrity and the utilisation of the audit work, the SAO commenced product development work concerning quality control, publicly owned companies and IT tools for the purposes of improving the utilisation of the SAO’s results in organisational development and professional audit work in the international arena and intensifying knowledge sharing among supreme audit institutions.



SAO’S BUDGET AUDIT PRACTICE IN FIRST RANK IN INTERNATIONAL COMPARISON

According to the latest, 2017 report of the Open Budget Survey, over the past two years the SAO has improved its result further in contributing to the transparency of the budget. The SAO performs its duties at high standards — even higher than the average of developed countries — as regards the control exercised over the central budget.



WWW.INTEGRITAS.HU

WWW.PENZUGYSZEMLE.HU

WWW.ASZHIRPORTAL.HU

SAO operating model

The State Audit Office of Hungary, as the supreme financial and economic audit organisation of the National Assembly, is a key independent institution of the democratic state organisation, an active member of the International Organisation of Supreme Audit Institutions. In line with its legal status and mission, it is one of the most important duties of the SAO to harness its expertise in order to support the legislative activity of the National Assembly. The SAO has general powers in auditing the responsible financial management of public funds, state and local government assets. Acting within its functions laid down in the law, it audits the implementation of the central budget, the management of public finances, the use of funds from public finances and the management of national assets.

The SAO is required to conduct audits pursuant to resolutions passed by the National Assembly, and may commence audits upon the Government's request. The National Assembly tightened the requirements pertaining to the management of public funds, which eliminated the lack of consequences in regard to the inadequate use of public funds and public property. Audited entities are now required to take action with respect to any deficiencies detected by the audit. While the SAO Act and other pieces of legislation define mandatory audits, the SAO is entitled to look into any spending of public funds.

Auditors perform their work based on a pre-defined audit plan approved by the President and submitted to the National Assembly. In planning its audits, the SAO applies the practice of rolling planning and always conducts its audits retrospectively, pertaining to a previous period, based on the criteria of lawfulness, expediency and effectiveness. The SAO's audit activity is performed in accordance with a set of professional rules governed by international SAI standards.

Pursuant to legal regulations, the SAO supports the compilation of the central budget by offering opinions and it audits the execution of the budget. On an annual basis, it audits the exercise of proprietary rights over state property and the resource allocation of the Budapest Municipality. It retrospectively audits the settlement of campaign fund spending during the election campaign, and semi-annually audits the financial management of all parties and party foundations that received budgetary subsidies. The duties of the SAO are described in more detail in Annex I.

In selecting the audit topics, the SAO considers the inherent risks of the areas to be audited, as well as the risks identified with respect to the internal control systems of already audited entities; as a result, it gains more and more information on the risks posed to the general government and on the risks associated with the use of public funds or public property. Consequently, it can use the audits as targeted tools, focusing on areas that need them the most. The summary report on the SAO's annual activity also provides the means for drawing systemic conclusions.

FORMS OF THE SAO'S ACTIVITY:



Audit reports may relate to a specific topic or organisation, or they can be thematic audits. Thematic audits are conducted on the basis of longer-term, uniform audit programmes that allow for comparable and holistic evaluation; they are designed to cover the most important areas of the operation of a large number of business associations performing identical or similar tasks on a specific area, such as local governments, higher education institutions, hospitals, museums, non-governmental human service providers, orchestras or companies majority-owned by local governments or by the state.

A regular duty of the SAO is the evaluation of the action plans drawn up by the audited entities. Moreover, the SAO ascertains of the execution of the action plans by regular follow-up audits, and notifies the competent authorities of any infringements detected. When the SAO detects practices in violation of the law or perceives the risk of improper or wasteful use of assets, it notifies the audited entity thereof in a separate warning letter.

Besides its primary audit activity, the SAO's advisory and opinion-forming function has increasingly come to the foreground. Alongside the audits, this function is primarily intended to improve the transparency and effectiveness of the use of public funds by way of the SAO's analyses, studies and opinions and to contribute to the more efficient operation of public finance areas and the institutional systems providing public services. Taking action against corruption, disseminating the culture of integrity and mapping the corruption risks of the public sector are parts of the SAO's mission and, as a socially responsible institution, it joined in the efforts aimed at improving financial literacy.

RELATIONSHIP BETWEEN THE ENTITIES AFFECTED BY THE SAO'S AUDITS AND ANALYSES AND THE AUDIT AND ANALYSIS IMPACT AREAS ILLUSTRATED BY EXAMPLES OF THE SAO'S OUTPUT PRODUCTS

Organisations affected by the audits and analyses	Central sub-system of the general government		Local government sub-system of the general government				Organisations outside of the general government			
	Organisation 1	Organisation 2	
Audit and analysis impact areas										
Internal control system			Thematic reports				Conferences, good practice seminars			
Management of state property										
Accounting rules	Warning letter				Analysis					
Financial position, financial management, public debt	Warning letter				Draft legislation, opinion					
Supporting the concept of the well-managed state	Special reports				Draft legislation, opinion					
Economic competitiveness										

The SAO's mission is to promote the transparency of public finances through value creating audits performed on a solid professional basis, thereby contributing to the operation of the well-managed state. The SAO's added value to the order of public finances and the quality control and development thereof mainly manifests itself in the fact that as an independent institution, it provides an objective view of the systemic processes affecting the general government and national assets and, relying on its wide-ranging experience, it is capable of facilitating the improvement of the effectiveness and expediency of the system. As part of its activity performed in support of the well-managed state, strengthening the integrity and enhancing the management of general government organisations, as well as state and local government-owned companies are priority topics.

It is also a strategic goal of the SAO to perform its duties efficiently, by setting up an optimal organisation structure and efficiently distributing the resources available, setting an example of unwasteful work performance as a guardian of public funds.

Presentation of the SAO's focus areas

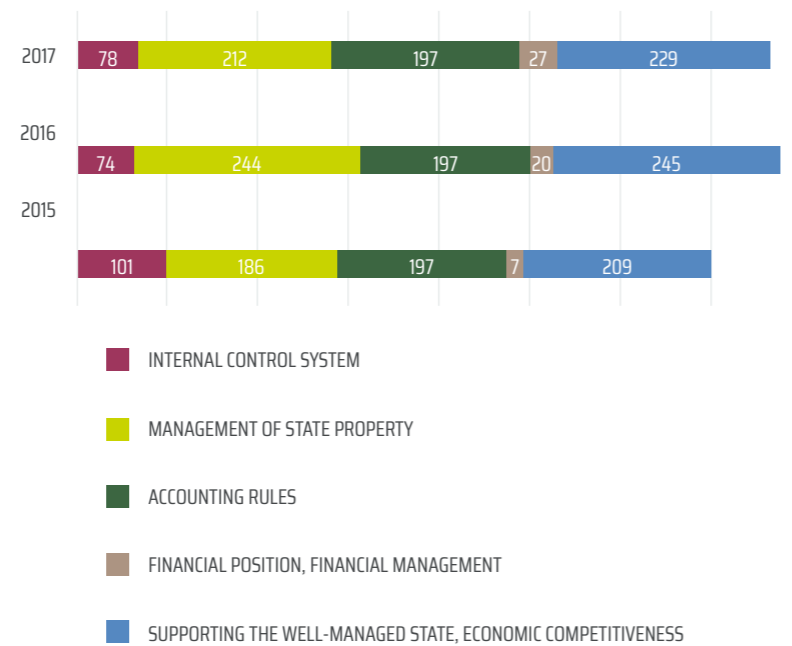
Exploiting its remaining capacities beyond its statutory mandate and the audits performed with legally required frequency, the SAO focused its activities on the following areas in 2017.

Organisations affected by the audits and analyses	Audit institutions	State-owned companies	Central budgetary organisations	Local governments and their companies	Subsidiary organisations outside of the general government
Internal control system	●	●	●	●	●
Management of state property	●	●	●	●	●
Accounting rules	●	●	●	●	●
Financial position, financial management, public debt	●	●	●	●	●
Supporting the concept of the well-managed state	●	●	●	●	●
Economic competitiveness	●	●	●	●	●

Number of audits



DISTRIBUTION OF SAO REPORTS BY AUDIT IMPACT AREAS, 2015–2017 (NUMBER OF REPORTS)



The focus areas were identified based on previous years' experiences and the duties prescribed by the SAO Act, in consideration of current risks posed to public finances.

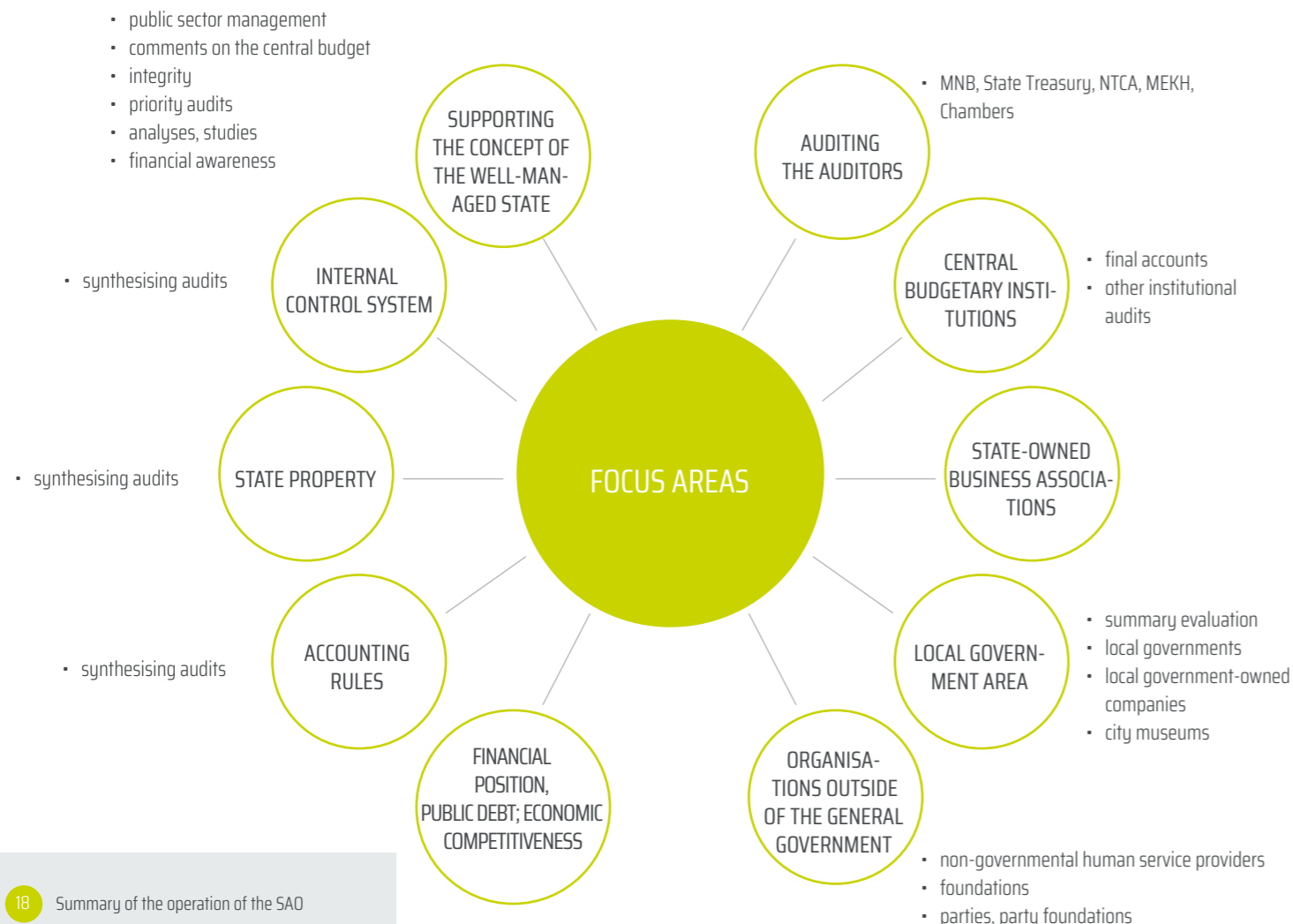
The SAO's goal is to reach additional, heretofore unaudited areas where risks can be identified. Another goal is to exponentially assist the utilisation of its work through holistic audits and analyses and by defining medium-term audit directions. These goals are being served by the audits conducted in new areas as specified in the SAO's 2017 audit plans, such as audits concerning the institutional system of child protection and child catering, the chimney sweep public service, ragweed control, air quality, energy efficiency of public buildings, the Hungarian Energy and Public Utility Regulatory Authority (MEKH), EU assistance for research/development and innovation, the NTCA's information technology systems, foundations, public foundations, student unions, institutions operated by national minority self-governments and public libraries. Similarly, the SAO applied new audit criteria in auditing regional water utility companies. In 2017, the SAO extended its audits to previously unaudited, large projects as well. In addition, it conducted audits on already audited topics at new organisations, for example, non-governmental human service providers, public bodies and state and local government-owned business associations. In the context of the latter, healthcare service providers and orchestras were put into focus. Some of the audits conducted in these new areas are carried over to 2018.



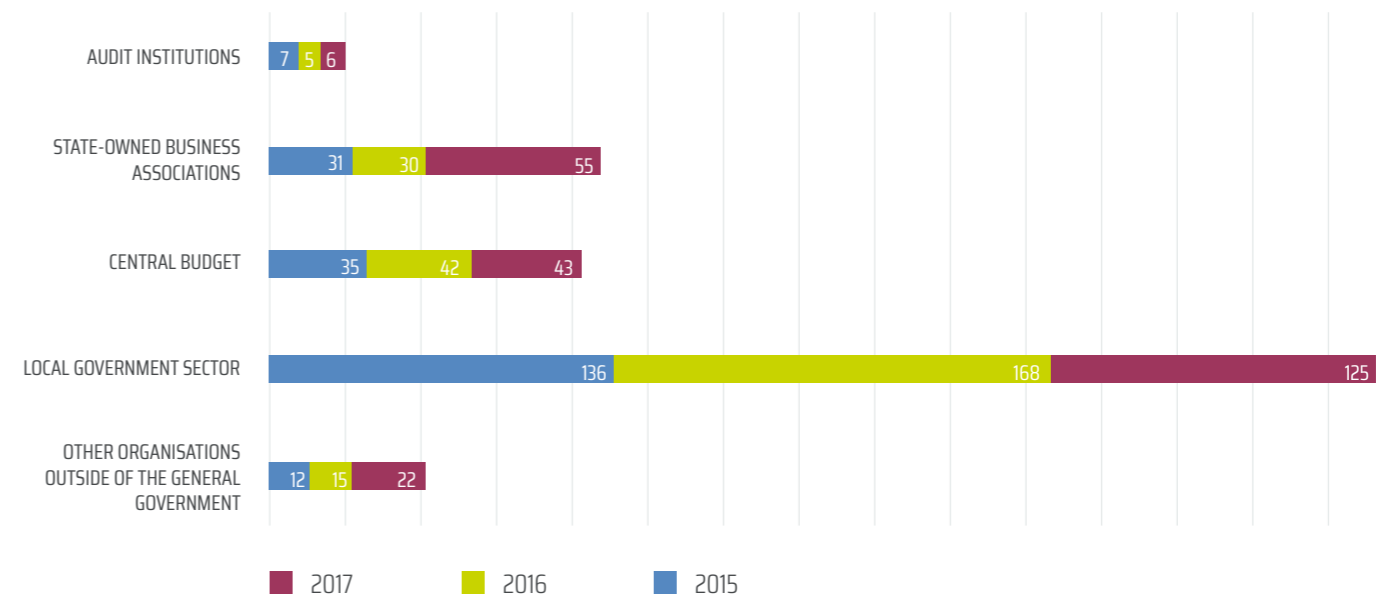
In the electronic version, clicking on the link will display changes in the number of SAO reports across the years by audited entity



AN OVERVIEW OF THE COMPONENTS AND FEATURES OF FOCUS AREAS



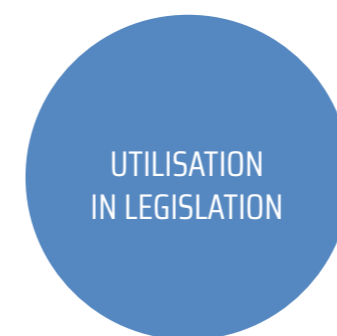
DISTRIBUTION OF SAO REPORTS BY AUDITED ENTITIES, 2015–2017 (NUMBER OF REPORTS)



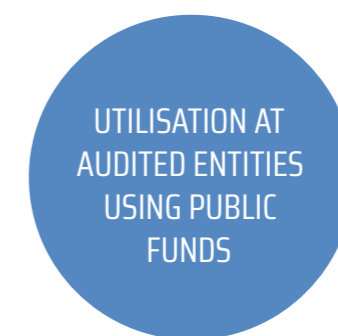


THE SAO'S PROFESSIONAL ACTIVITIES IN 2017

I. UTILISATION AREAS OF OUR ACTIVITIES



- Supporting the National Assembly
- |
- SAO recommendations in legal regulations
- |
- Feedback on the execution of legal regulations



- Audit findings, action plans and warning letters
- |
- Follow-up audits
- |
- Contribution to improving the order of public finances by legal means
- |
- Increasing prominence of good practices and ethical, high-quality leadership



- Information supply to the general public
- |
- Advisory activities
- |
- Proposed topics concerning the general public and the scientific community
- |
- Supporting law-abiding behaviour, e.g. self-tests

1. Utilisation in legislation

1.1 SUPPORTING THE NATIONAL ASSEMBLY

The highest level of the utilisation of the SAO's constitutional duty set out in the Fundamental Law is the support provided to legislative work, which is carried out by the organisation either directly as specifically defined by the law, or in indirect ways and forms established within the constitutional framework. The SAO wishes to support high-quality legislation serving the interests of Hungarian citizens by any means and methods afforded by the legislative framework.

OUR PERFORMANCE IN NUMBERS WITH RESPECT TO SUPPORTING THE WORK OF THE NATIONAL ASSEMBLY IN 2017

50% references to SAO as a percentage of parliamentary session days

30 days in attendance at committee meetings

12 reports to the NA

35 recommendations for bills

10 requests for the amendment of legislation

25 comments on draft bills and other documents

The tasks set out specifically in the SAO Act that directly support the work of the National Assembly are providing an opinion on the bill on the central budget submitted by the Government, auditing the execution of the central budget for the previous year, and informing the National Assembly on the SAO's audit activity, operation and financial management in the previous year, as well as of the actions taken based on the audit findings. Supporting the work of the National Assembly is carried out in numerous ways:

- forwarding reports and relevant studies and analyses to the officials and Members of Parliament;
- supporting committee work by way of SAO information documents and background materials and by providing information on the audit experiences related to the implementation of pieces of legislation;
- issuing recommendations in relation to the legislative programme based on the relevant audits;
- submitting proposals for legislative amendments based on the audit experiences;
- submitting the SAO's audit plan to the National Assembly;
- ensuring transparency based on the parliamentary relations published on the SAO's news portal for the whole of society.

1.2 LEGISLATION SUPPORT BASED ON AUDIT EXPERIENCES

Beyond providing Parliament with summary reports, the SAO also provided support for debates on specific regulatory amendments and initiated legislative amendments in its own right. Proposals on legislative amendments are especially suitable to ensure that the diversified and evidence-based experiences of the SAO are utilised at system level in the risk-laden areas of public finance and public property management.

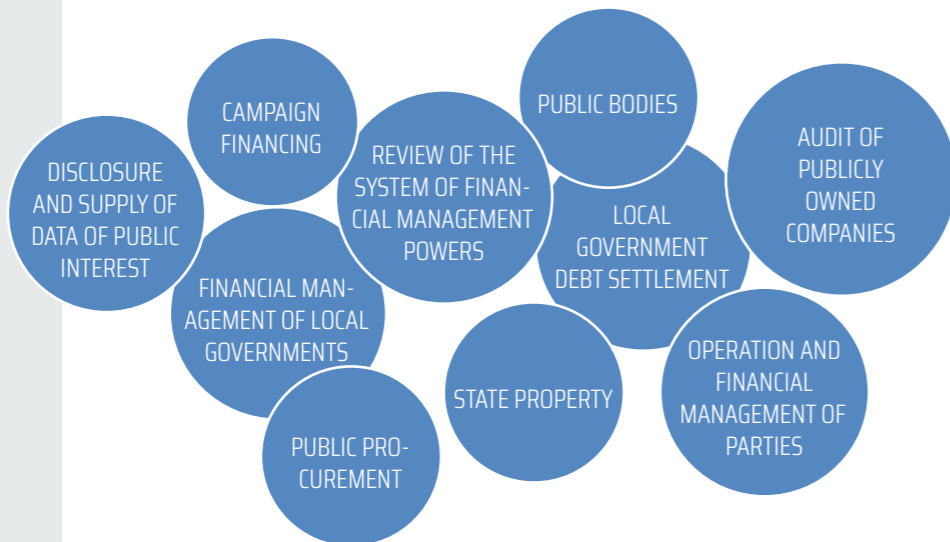
Legislative programme

During the spring and autumn sessions of the National Assembly, in keeping with its practice of previous years, in its recommendation issued for the legislative programme the SAO drew attention to already published reports in relation to specific bills. The spring and autumn legislative programmes included a total of 94 bills, for 35 of which the SAO recommended previously published SAO reports.

Requests for the amendment of legislation

For the better utilisation of audit experiences, apart from the reports affecting the bills included in the legislative programme, in several cases the SAO informed those responsible for crafting and putting forward draft legislation if it had relevant audit experiences in the given regulatory topic. The SAO contacted the legislators on a total of 10 occasions to share system-level experiences gained during audits on the one hand, and to offer several specific proposals on legislative amendments on the other.

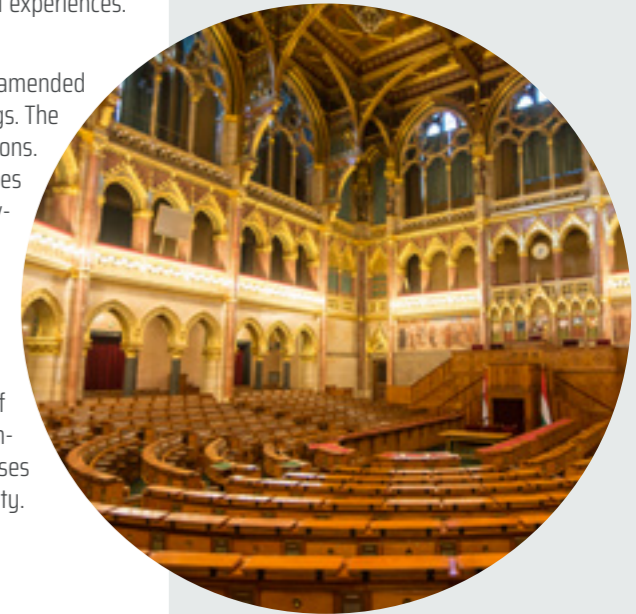
Specific areas included in the SAO's proposals on legislative amendments



Comments on legislation

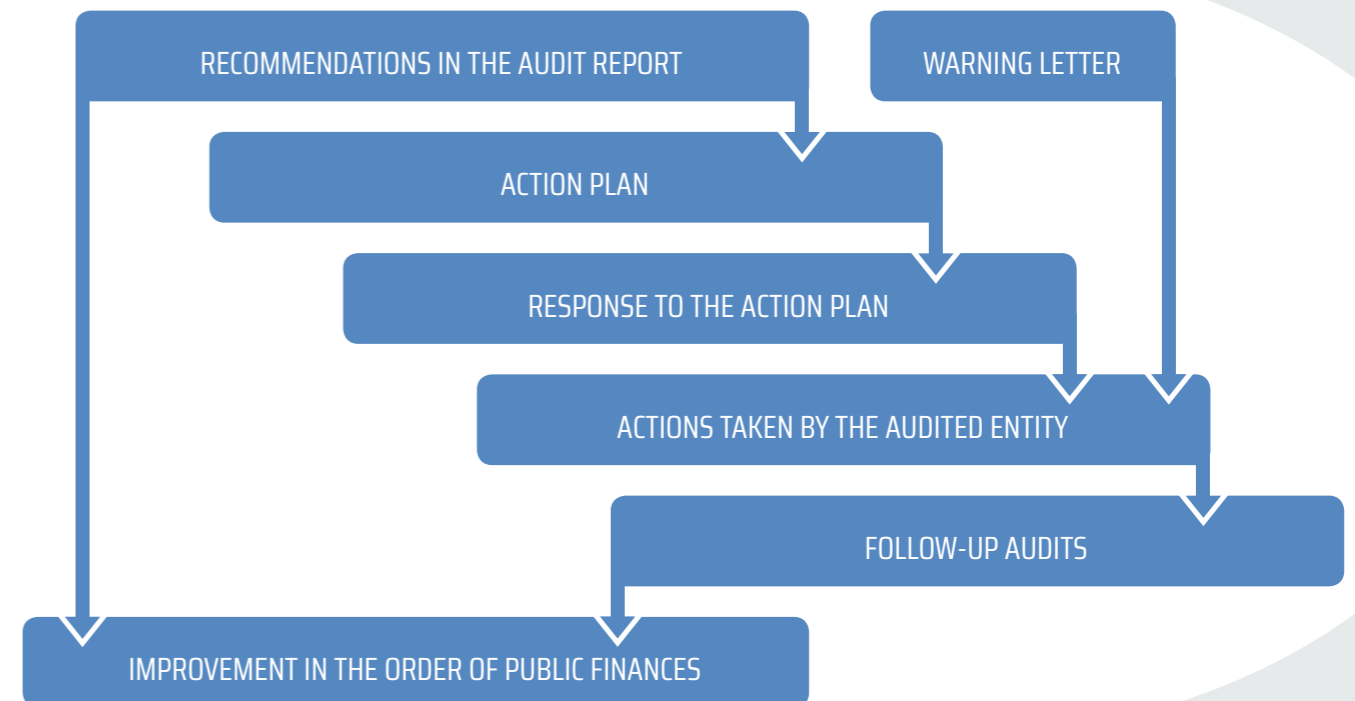
In 2017, 18 draft bills were sent to the SAO for comments and comments were requested in relation to 7 other documents (methodological guidelines, rules of procedure, programme, strategy). The SAO commented on the documents received based on its audit experiences.

During the autumn session of Parliament, the act on campaign financing was amended as a result of the irregularities detected by the SAO based on its audit findings. The new provisions were already in effect during the 2018 parliamentary elections. For the increased protection of public funds, the new provisions require parties setting up a party list to repay the budgetary subsidy if the party list of the given party does not receive at least 1% of the valid votes cast on the party lists. During the administrative consultation on tax-related legislation with the ministry in charge of the preparations for drafting the legislation, the SAO observed that, according to its audit findings (audit of the Democratic Community of Welfare and Freedom [JESZ] and its foundation), there were no adequate rules in the acts on parties and party foundations on the collection of prohibited contributions. The NGM Decree has put in place legislative guarantees with respect to the collection of prohibited contributions in that it imposes an obligation to take action upon the Hungarian State Treasury as an authority.



2. Utilisation on the side of audited entities

Utilisation process of the audit work at the audited entities



RECOMMENDATIONS, EVALUATIONS AND WARNING LETTERS FOR AUDITED ENTITIES IN 2017

1546 Recommendations

340 Addressees

102 Warning letters

560 Evaluated action plans

2.1. RECOMMENDATIONS AND ACTION PLANS BASED ON FINDINGS WITH OBLIGATIONS TO TAKE ACTION

It is a requirement of the SAO that the findings should be based on firm legal grounds and the conclusions should be well substantiated. To that end, the findings behind the recommendations and the President's warning letters are reviewed from a legal standpoint. The State Audit Office of Hungary operates a monitoring system for registering the action plans received, and thus for the continuous monitoring of the SAO's obligation to take action, as defined in the SAO Act.

Recommendations based on findings with obligations to take action

The head of the audited entity may comment on the audit findings. Comments by the audited entities are evaluated by the supervisory managers assigned to the individual audits. Pursuant to the SAO Act, the SAO is required to indicate in its reports any disregarded comments along with the reasons for rejecting the comment.

In addition to the above, composed of independent participants, the SAO's multi-level quality control system ensures that the audit findings are based on objective facts and are correct both from a professional and from a legal perspective.

In the reports published by the State Audit Office of Hungary in 2017, the SAO issued a total of 1,546 recommendations for the heads of the audited entities. In regard to the number of recommendations, it is important to note that one recommendation is generally supported by more than one finding; therefore, action may have to be taken in multiple areas based on a single recommendation.

Action plans and facilitating the implementation thereof

Monitoring the execution of the SAO's recommendations contributes to ensuring transparency and accountability in public spending. In order to ensure the implementation and utilisation of the recommendations formulated in the SAO reports, the SAO evaluated the acceptability of the action plans submitted by the audited entities. The SAO produced 560 evaluations with respect to the action plans received in 2017 in response to the recommendations.

The SAO evaluates the implementation of the action plans in the framework of follow-up audits.

The President of the SAO sent 102 warning letters to the heads of the audited entities in relation to the SAO reports issued in 2017. In the warning letters, the SAO typically instructed the heads of the audited entities to take steps in order to eliminate the unlawful practices detected during the audits.

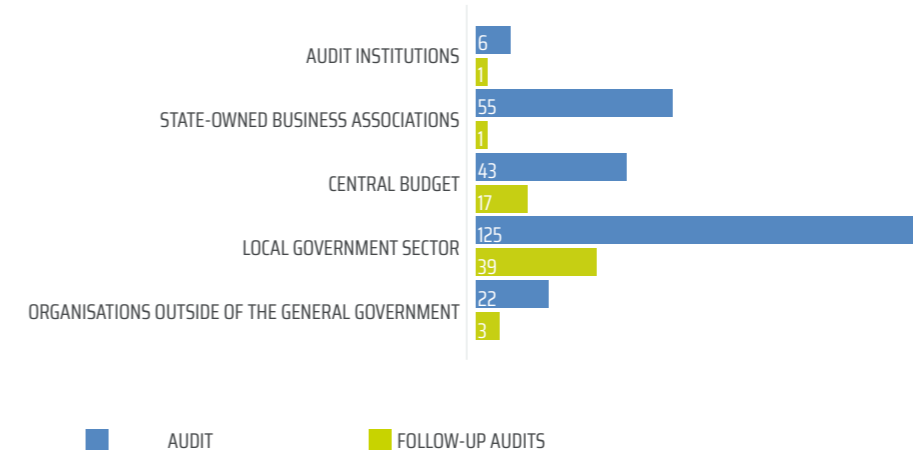
The warning letters also support the endeavour laid down in Government Decree No. 1660/2015; namely, that the activity of the heads of majority state-owned companies should be continuously assessed from the aspects of regularity, effectiveness and economy, and that the heads of state-owned companies are required to abide by strict ethical and integrity principles.

2.2. FOLLOW-UP AUDITS

One of the objectives laid down in the SAO's strategy is to eliminate the flaws, deficiencies and irregularities detected in the course of previous audits. To that end, the SAO conducts regular follow-up audits, which contribute to improving the orderliness of public finances.

The first step in ensuring the desired consequences of the audits and the elimination of the detected deficiencies was adopting the statutory obligation of preparing an action plan on the audited entities. Audited entities must submit to the SAO the action plan compiled by them for eliminating the deficiencies. The SAO evaluates the plans and notifies the heads of the audited entities of the result. The SAO ascertains of the implementation of the action plan in the context of follow-up audits. Follow-up audits at less frequently audited organisa-

DISTRIBUTION OF AUDIT REPORTS IN 2017 BY AUDITED ENTITY, HIGHLIGHTING THE NUMBER OF INDEPENDENT FOLLOW-UP AUDITS



tions are performed on the basis of independent audit programmes. In all other cases, audit programmes with different focal points also contain criteria for follow-up audits, which help reduce the burden on more frequently audited entities.

2.3. CONTRIBUTION TO IMPROVING THE ORDER OF PUBLIC FINANCES BY LEGAL MEANS

The National Assembly has significantly strengthened the system of the legal consequences of SAO audits, which put an end to the era of audits without legal consequences. The State Audit Office of Hungary has a wide range of instruments at its disposal to impact auditees with a view to promoting the economic and regular use of public funds. The SAO Act provides general authorisation for the SAO to inform any external authority competent to act in specific cases with respect to irregularities observed during the audit processes.

The SAO strives to prevent flaws and deficiencies and to support audited entities by exhibiting an attitude of cooperation.

This means that the ultimate goal of SAO audits is not a search for faults or sanctioning, but facilitating the prevention of the errors, moving public finances in the right direction and initiating and maintaining positive changes. Moreover, the SAO obviously exercises its statutory right, as appropriate, to nudge the participants of the public finance system toward regular operations.

It should be stressed that the SAO is not an authority and it does not have powers to conduct investigations in relation to its audit findings; it is only entitled to initiate proceedings with the competent body to enforce legal consequences. If the suspicion of a criminal offence arises in the course of its audits, the SAO is required to communicate the relevant findings to the competent authority without delay.

After the notification, the owner of the case will be the authority notified, which decides on the measures to be taken within its own competence. Consequently, in consideration of the interests of investigations and other administrative procedures, the SAO does not provide specific information about the status or outcome of the cases. Moreover, since all SAO reports are public and available on its website, based on their findings, any authority is entitled to initiate procedures within its own competence.

The State Audit Office of Hungary keeps a record of the administrative indications initiated by the organisation along with the feedback received, with a view to measuring their utilisation and determining the directions of future development.

Of the 257 administrative and other notifications sent by the SAO in 2017, 46 were addressed to the Prosecutor's Office, 70 to the Chamber of Auditors, 47 to the public procurement authority, 57 to government offices, 6 to the National Tax and Customs Administration, 11 to

The SAO's proposal

In our opinion, action should be taken in order to step up the efforts to eliminate the irregular and wasteful management of public funds and public property and to reduce the risks thereof. There may be a need to define – and clearly communicate at the government level – expediency requirements.

NUMBER OF PROCEEDINGS INITIATED IN 2017

46 Notifications to the investigating agency

70 Notifications to the Chamber of Hungarian Auditors

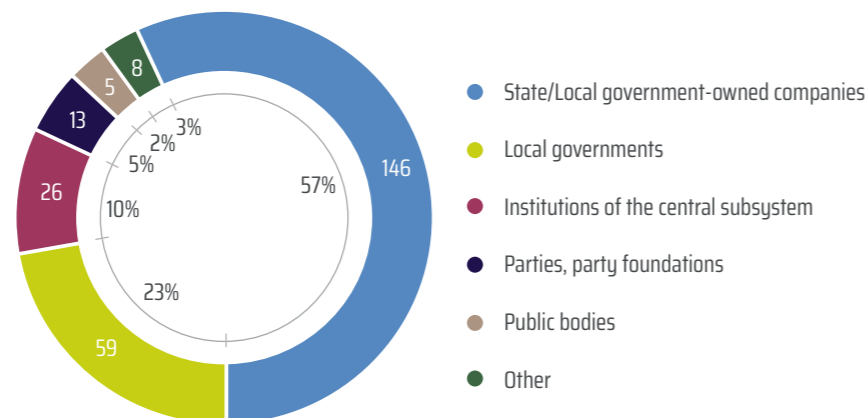
47 Requests to launch public procurement remedy proceedings

57 Notifications to government agencies

37 Notifications to other authorities

the Court of Registration, and 20 to other supervisory bodies (e.g. the Hungarian Energy and Public Utility Regulatory Authority, the National Authority for Data Protection and Freedom of Information [NAIH]).

DISTRIBUTION OF ADMINISTRATIVE AND OTHER NOTIFICATIONS BY AUDITED ENTITY IN 2017 (NUMBER, %)



The necessity of administrative notifications on the one hand confirmed the justification of selecting audited organisations on a risk-basis and, on the other, drew attention to the importance of operating the internal control system.

Notification of investigative authorities

In 2017, 34% of the notifications sent to the investigating authorities was related to the audits of business associations, while 22% concerned institutions of the central subsystem, 20% local governments, 13% subsidised parties and party foundations, and 11% other organisations. In most cases, the investigative authorities were notified because of suspected violations of the accounting rules, mismanagement or negligent use of funds and the forging of official documents. Moreover, in several cases the SAO notified the Prosecutor's Office not as an investigating agency but as an organisation promoting the protection of public interest.

Notification of government agencies

The reason for the notification of government offices was the fact that the findings of the auditors could be best remedied by the metropolitan and county government offices concerned, as they are responsible for the supervision of local governments' legal compliance and, by virtue of their supervisory role, they have more direct and therefore more efficient tools available than the SAO. Such irregularities included the lack of Organisational and Operational Rules (OOR) or the lack of an inventory policy, or the deficiencies detected in their content.

Based on our indications, government offices called for compliance with the legality requirements in the framework of supervisory procedures in several cases, and on numerous occasions they provided professional support to the affected local governments to eliminate the flaws and deficiencies detected. Therefore, our indications to the government offices contributed to ensuring the regularity of the operation of local governments.

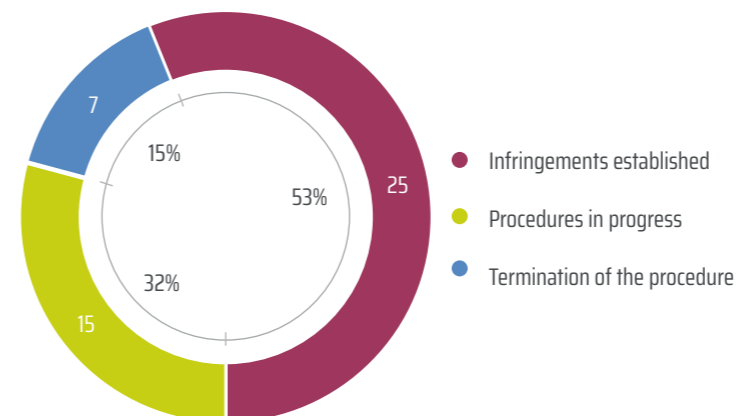
Notification of the Chamber of Hungarian Auditors

It was perceived as problematic by the SAO that auditors attached an unqualified opinion to the annual reports in several cases despite the fact that the SAO's audit had detected severe deficiencies or irregularities in relation to the reports (e.g. major miscalculations, the lack of stocktaking that would substantiate the chart of accounts and balance sheet items).

Notification of the Public Procurement Arbitration Board

The public procurement remedy proceedings initiated by the SAO have contributed to fostering the legally compliant execution of public procurements and the transparency of public spending. The majority of the public procurement-related irregularities addressed by the remedy proceedings initiated by the SAO arose during the audits of state and local government-owned companies as well as foundations and public foundations. In line with previous years, the most typical irregularity was the audited entities' failure to conduct a

PUBLIC PROCUREMENT ARBITRATION BOARD PROCEEDINGS LAUNCHED IN 2017 BASED ON THE SAO'S NOTIFICATIONS (NUMBER, %)



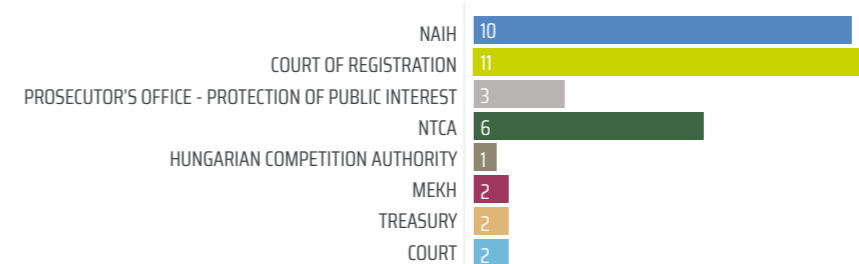
public procurement procedure and, to a lesser degree, the amendment of existing contracts in violation of the Public Procurement Act.

In most remedy proceedings, the breach of regulations was confirmed and in many instances fines were imposed. The Arbitration Board imposed fines in 25 cases amounting to a total of HUF 43.6 million, concerning, for the most part, state and local government-owned companies.

Other notifications

The SAO notified the Court of Registration of irregularities concerning the supervisory boards of business associations or concerning the disclosure of annual reports and the amount of shareholder's equity, and the Hungarian Energy and Public Utility Regulatory Authority of irregularities concerning the public service fees applied by water utility companies and district heating suppliers. For the protection of the rights of citizens, the SAO sent indications to the National Authority for Data Protection and Freedom of Information for the non-performance of disclosure obligation. The SAO notified the National Tax and Customs Administration of irregularities concerning invoicing or taxation issues detected by the audits or concerning the obligation of filing asset declarations. The purpose of the SAO's notifications related to the duty of the Prosecutor's Office to protect public interest is to ensure that lawful operation is restored and ensured at non-governmental organisations (in these cases, at parties and party foundations).

DISTRIBUTION OF OTHER NOTIFICATIONS IN 2017 (NUMBER)



What constitutes the SAO's cooperation with investigative authorities?

Pursuant to 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. Not all ongoing criminal proceedings at the investigative authorities were initiated by the SAO, but even in those cases, the SAO may have documents or audit information available that could be of significance in criminal proceedings.

What is the obligation to cooperate?

Pursuant to the SAO Act, the audited entity is required to make available to the State Audit Office of Hungary (at its request without delay, but no later than within five working days) the data and documents necessary for scheduling and conducting the audit, and to ensure access to the premises of the organisation during on-site inspections.

This obligation – along the obligation to draw up an action plan – qualifies as the obligation to cooperate, and failure to comply with this obligation may result in legal consequences under the criminal law.

Cooperation with investigative authorities

In 2017, the SAO responded to 25 official requests from investigative authorities, providing substantial assistance to the investigative authorities conducting the criminal proceedings by forwarding to them documents that were at the SAO's disposal.

Obligation to cooperate

In 2017, the SAO filed criminal charges because an audited entity failed to comply with its statutory data supply obligation despite multiple notifications and on-site data requests; moreover, it did not allow the auditors to enter the premises of the organisation.

3. Areas of societal utilisation – Information supply and advisory function

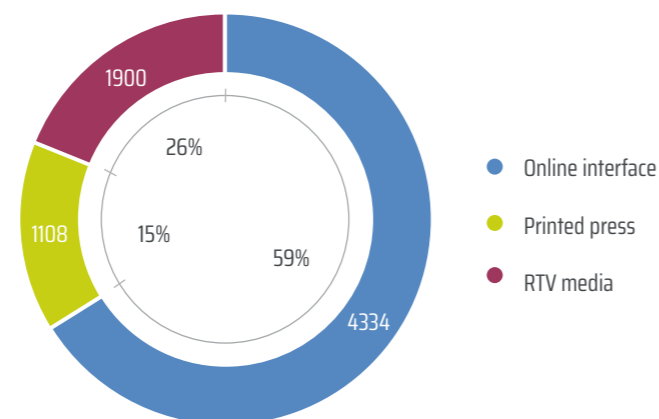
3.1. INFORMATION PROVISION AT THE LEVEL OF SOCIETY

An important element of the utilisation-oriented operation of the State Audit Office of Hungary is the societal level as, through our reports and analyses, we provide information to citizens on how their tax forints are being used.

Societal utilisation

The credibility of reports and analyses is supported by the SAO's strict quality control system and the system of professional rules that were formulated in accordance with international standards. The media plays an important role in getting the information and messages across; therefore, the SAO pays special attention to informing media outlets on a regular basis.

DISTRIBUTION OF SAO NEWS ITEMS BY MEDIA TYPE IN 2017 (NUMBER, %)



OUR PERFORMANCE IN NUMBERS WITH RESPECT TO COMMUNICATION IN 2017

2006 News items on the SAO News Portal

7342 News items in the media

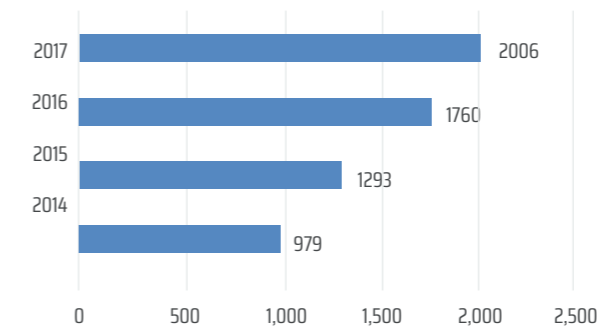
122 Electronic press conferences

33 Press releases

4 Traditional press conferences

The news portal of the SAO (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.

NUMBER OF HUNGARIAN-LANGUAGE ARTICLES ON THE SAO'S NEWS PORTALS



In 2017, in addition to Hungarian language articles, the SAO also published 534 articles on the foreign language pages of the News Portal.

Academic utilisation

Since its foundation, the SAO has paid particular attention to sharing the results of its audit, advisory and analyst activity with the professional/scientific community. By doing so, it stimulates the analysed financial and economic areas of professional discourse.

Public Finance Quarterly, an impact factor public finance journal is published by the State Audit Office of Hungary in close conjunction with the Public Finance Quarterly Online website.

The purpose of publishing the professional journal is to provide – in light of the most significant financial correlations – an authentic picture of the main features of the operation of the public sector and the national economy. Another goal is to support future building endeavours, professional debate and the dissemination of financial awareness, and to contribute to substantiating financial/economic policy decisions.

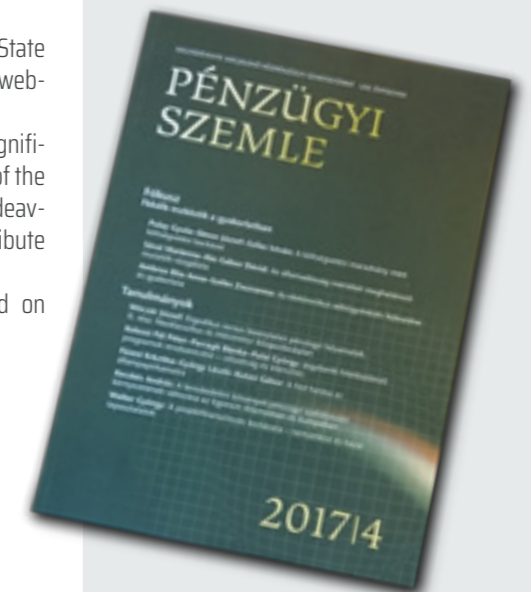
In 2017, the Public Finance Quarterly published four issues. The issues focused on the following topics:

- The State, as a factor of competitiveness
- Tax as a social policy instrument
- Uncertainty, risk, volatility
- Financial instruments in practice

Another important publication of the year was the special issue of the journal Public Economy (Köz-gazdaság), published jointly by the State Audit Office of Hungary and Corvinus University of Budapest (BCE) on 9 October 2017. The special issue presented the latest results of Hungarian integrity research, based on the results of the SAO's Integrity Survey and the findings of the Corruption Research Centre of BCE. The special issue was authored by experts from the scientific workshops of SAO and BCE.

The SAO's proposal:

The SAO proposes that, based on the SAO's communication experiences, the National Assembly call on (by issuing a resolution) the institutions subject to a reporting obligation toward the Parliament to improve their social utility and transparency, thereby strengthening the credible information supply of the institutions concerned. Through the tool of positive communication, the call may strengthen society's confidence in the Government and contribute to implementing the well-managed state.



3.2. THE SAO'S ADVISORY ACTIVITY

It is an important mission of the SAO to leverage its audit expertise to support potential audited entities in the context of its advisory activity prescribed by law.

In addition to its analyses, studies and information documents drawn up for the National Assembly, the SAO also shares its experiences with the wider professional audience at conferences, seminars, consultation forums and in trainings.

Analyses, studies

On the one hand, producing analyses and studies is the SAO's statutory obligation (in relation to the work of the Fiscal Council); and on the other, it is a key tool in supporting good governance – a pillar of the SAO's advisory activity.

The analyses produced by the SAO play an important role in the SAO's knowledge-sharing activity. Firstly, they synthesise the SAO's audit experiences and secondly, their goal is to explore the background – and share the deeper correlations – of certain topics in the centre of public interest, public thinking or, as the case may be, a government measure. The SAO published 13 analyses in 2017, while the additional analyses prepared during the year are utilised in the SAO's audit and advisory activity.

Knowledge sharing at conferences and seminars

Experts and senior officers of the SAO shared their experiences and the "good practices" collected by them at conferences, professional workshops and forums, providing audited entities with the opportunity to achieve more regulated and more effective operations.

- topic: "Public sector integrity and ethical leadership"
- 40 SAI delegates of 25 countries
- presentation of the SAO's anti-corruption model

4. INTERNATIONAL INTEGRITY SEMINAR

ETHICAL LEADERSHIP, INTEGRITY, PERFORMANCE MANAGEMENT GOOD PRACTICE SEMINAR

- presentation of the public service analyst training launched jointly with the University of Miskolc
- the SAO's audit experience

- the SAO's more in-depth communication on the integrity methodology
- to the SAIs of 6 countries

INTERNATIONAL INTEGRITY WORKSHOP

BUDAPEST MEETING OF THE IDI'S ANTI-CORRUPTION PROGRAMME

- SAIs from 9 countries
- development of anti-corruption toolkit
- in focus – prevention of corruption

- the SAO's audit experience
- government objectives, programmes
- training for museum directors

"MANAGEMENT OF PUBLIC SERVICE ORGANISATIONS – IN FOCUS: MUSEUMS" C. GOOD PRACTICES SEMINAR

INTERNATIONAL SEMINAR ON LARGE INVESTMENT PROJECTS

- SAIs from 5 countries
- presentation of integrity risks and controls
- preparation of methodological guidelines

SAO – ECONVENTIO ASSOCIATION – YEAR-END CONFERENCE ON FINANCIAL AWARENESS

- presentation of the results of the financial literacy research

Knowledge-sharing within the framework of cooperation and consultations

In 2017, the SAO contributed to the transfer of knowledge and experiences accumulated within the organisation by way of extending cooperation agreements with other institutions, consultations and participation in joint projects.

- development of training material, training courses, contact maintenance

STRENGTHENING COOPERATION WITH THE NMI CULTURAL INSTITUTE

CONSULTATIONS WITH THE LEADERS OF MUNICIPAL INTEREST GROUPS

- EUROSAI: the SAO leads two new projects (integrity, utility of audit work)
- INTOSAI: the SAO joined yet another working group (added value of SAIs)

ACTIVE PARTICIPATION IN THE WORK OF THE INTERNATIONAL ORGANISATION OF SAIs

CONSULTATIONS WITH HISTORIC CHURCHES

- graduate career tracking
- air quality
- energy efficiency

COOPERATIVE AUDITS WITH OTHER SAIs

CONSULTATIONS ON PREPARATIONS FOR THE AUDIT ON THE IMPLEMENTATION OF THE UN'S SUSTAINABLE DEVELOPMENT GOALS

- ministries, HCSD
- MTA, Office of the Commissioner for Fundamental Rights
- National Council for Sustainable Development

BILATERAL INTERNATIONAL CONSULTATIONS, COOPERATION

- discussions, consultations, cooperation
- Vietnamese, Korean, Serbian, V4 and Chinese SAIs
- INTOSAI IDI
- OECD Budgetary Control Committee of the European Parliament

The leadership undertaken in EUROSAI's new project teams provides an opportunity for sharing and utilising the SAO's accumulated experience and systematised knowledge in the international arena. In order to achieve this as efficiently as possible, the SAO develops and publishes knowledge products in the areas of integrity, the utilisation of audit work, quality control, publicly owned companies and IT tools.

The Integrity project team may contribute to the broad-based adoption of the organisational culture of integrity in European countries. The central component of the project team's activity is an electronic integrity product market that has already been implemented. SAIs with access to the portal and a desire to move forward and develop post the description of their products and set up bi- or multilateral knowledge-sharing relations with those interested in the product.

One of the objectives of the EUROSAI project entitled "Societal utilisation and transparency of public finance audits" is to lay the foundations of possible ways of measuring the utilisation of the audit work and to strengthen knowledge-sharing between the SAIs.

KEY INDICATORS OF THE SAO'S ADVISORY ACTIVITY IN 2017

13 Analyses and studies

12 reports to the NA

7 SAO conferences, seminars

14 consultations, discussions with domestic organisations

31 international consultations, discussions (apart from joint audits)

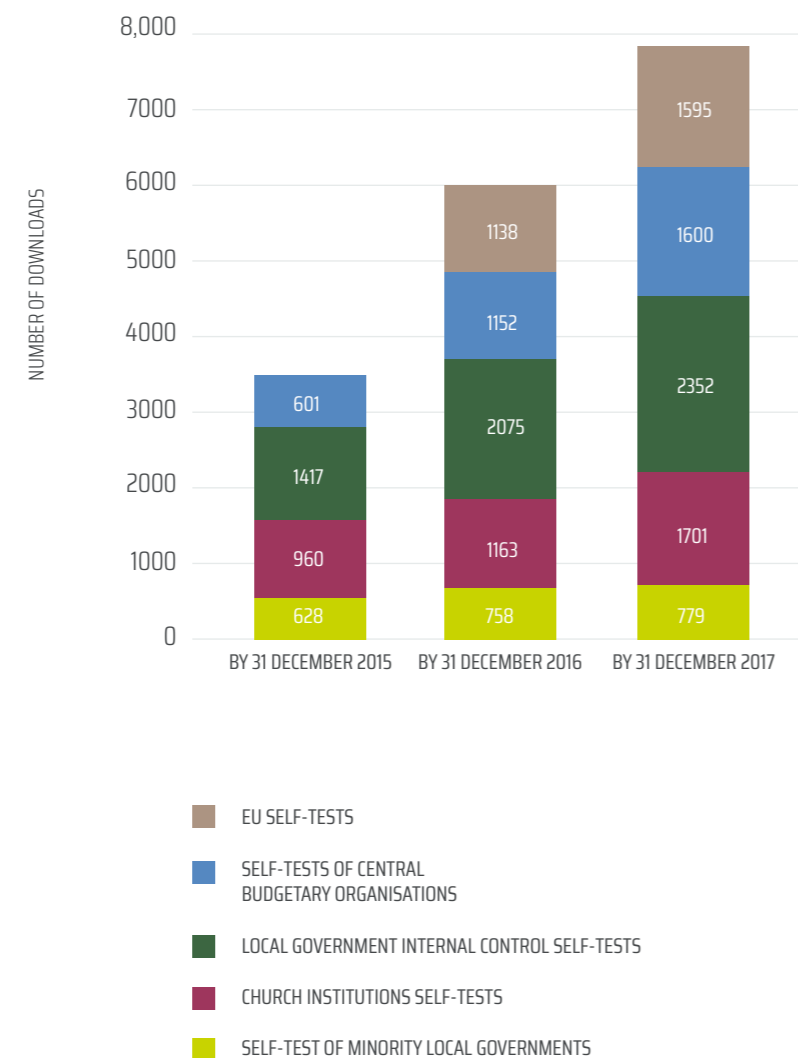
60 professional presentations given by SAO associates

1741 self-test downloads

Self-tests

The system of self-tests was developed with a view to enabling the broadest possible range of the entities involved in the use of public funds to utilise the SAO's audit experiences. 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, while in the spring of 2016 it was further expanded by self-tests supporting the utilisation of European Union funding. In 2017, the existing self-tests were revised and updated in order to ensure up-to-date content and continuous utility. The continuously growing number of self-test downloads confirms the successful utilisation of the self-tests.

SELF-TEST DOWNLOADS (CUMULATED DATA)



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.

II. EXPERIENCES OF AUDITS AND ANALYSIS

1. Synthesising evaluations based on the SAO's audit experience of several years

In addition to defining the organisations at which the SAO needs to conduct audits, the provisions of the SAO Acts highlight certain audit areas. Pursuant to the SAO Act, the State Audit Office of Hungary shall, among others, evaluate compliance with the accounting rules of public finances, as well as the operation of the internal control system of public finances, and audits the financial management of state and local government assets. The audit areas specified in the SAO Act imply regular tasks for the SAO, of which – due to their scope –, the accounting rules, the audit of internal control systems, asset accounting and the audit of asset preservation have special significance. Within the framework of the more general aspects defined in the SAO Act – auditing the financial management of the general government, facilitating the operation of the well-managed state – key roles have been assigned within the SAO's audit practice to areas deemed to be particularly significant, such as public debt, audits and analyses concerning the financial position of the general government and audits and analyses fostering economic competitiveness. Below we present the audit findings concerning the abovementioned areas as priority areas that are audited and evaluated on a regular basis at several audited entities. The synthesising evaluations presented below hold up a mirror or capture a snapshot, of public finance and the financial management of public property from a number of important aspects. They draw attention to the well-functioning elements of the management of public funds and public property, as well as to the areas with room for improvement. Moreover, in this chapter we present the utilisation of individual elements of the system-level proposals offered in previous years by the SAO.

1.1. FINDINGS RELATED TO THE AUDIT OF INTERNAL CONTROL SYSTEMS

In performing its core task, the SAO audits the setup and operation of the internal control systems of budgetary institutions, in particular, local governments. This is because the SAO places great emphasis on auditing the internal control system, the purpose of which is to ensure the regularity of operation and financial management and to safeguard against corruption threats. Over the past five years, the SAO conducted audits specifically targeting the setup and operation of the internal control system at 152 local governments. In 2017, 21 SAO reports were published on audits on the internal control systems of local governments. In addition, the number of thematic audits where part of the audit is focused on the internal control system of the audited entity increased significantly over the past two years. According to the findings of local government audits, the scope of typical flaws, deficiencies and irregularities concerning specific pillars of the internal control system remained the same as in previous years in 2017 as well.

Regarding the area of the central budget, the SAO assesses the internal control system in the context of final accounts audits from year to year.

The SAO's proposal:

In order to eliminate the deficiencies detected by the risk analyses of the SAO, it should be ensured that the SAO's findings have a greater impact on internal audits, thereby improving their efficiency and effectiveness.

Central budget

Years of experience in the audit of the final accounts demonstrate that the vast majority of the irregularities and deficiencies revealed by the SAO's audits have been corrected by the affected organisations and thus, the SAO's audit work has been utilised. As a result of regular, annual audits, at the institutions subject to reporting obligation to the National Assembly, at the institutions of constitutional chapters and at the organisations managing social security funds, the setup and operation of the internal control system was adequate and contributed to enforcing the integrity approach. The SAO identified room for improvement at other institutions of the central budget – the range of which changes year after year –, mainly in areas such as risk analysis, conflict of interest and ethical requirements, raising awareness about and strengthening integrity.

Local governments

In the past five years, in the context of independent thematic audits, the SAO conducted audits specifically targeting the setup and operation of the internal control system at local governments.

The audited local governments were selected based on risk assessment every year; therefore, audits on the setup of the internal control system, key controls and the regularity of the operation of the internal control system resulted in nearly identical or very similar findings. The audits revealed numerous typical errors, deficiencies and irregularities, which were communicated to the affected local governments at various forums and also in written

FINDINGS OF THE AUDITS ON THE INTERNAL CONTROL SYSTEM AT AUDITED LOCAL GOVERNMENTS SELECTED ON A RISK BASIS, 2013–2017



form. Nevertheless, the results also confirm that the risk-based approach applied by the SAO is key to efficient and useful audit work, and that the SAO conducted audits at organisations where the audit was justified.

The adequate setup and operation of the internal control system plays a key role in the management of corruption risks and in the prevention and detection of fraud activities relevant to integrity. In accordance with its revised audit programme, the SAO audited the internal controls of local governments with a focus on corruption risks and threats as early as 2013.

Establishing and strengthening an integrity-based public sector culture and the functioning thereof is closely related to the operation of the internal control system; therefore, the scope of the audits was extended to assess the extent to which the setup and operation of the internal control system facilitated the enforcement of the integrity approach. In the course of the audits, the SAO found that there are still many local governments where the integrity approach has not taken hold yet; the inadequately set up integrity control systems are unable to address efficiently the corruption risks arising during the local governments' operation and the task performance of the offices.

Local governments need to expend further efforts to ensure the enforcement of the integrity approach.

1.2 EXPERIENCES AND EFFECTS OF THE AUDITS ON ASSET ACCOUNTING AND ASSET PRESERVATION

Pursuant to the Fundamental Law, the management and protection of national assets shall aim at serving public interest, meeting common needs and preserving natural resources, as well as at taking into account the needs of future generations. Requirements on the preservation and protection as well as the responsible management of national property are defined in cardinal acts. It is the SAO's strategic goal to ensure that its audits facilitate, to the greatest possible extent, transparency, accountability and enforcement in the management of public funds and public property, as responsible management of public property is a basic condition for the performance of public tasks.

The SAO increasingly places audits on the management of public property at the centre of its audit work at organisations in the central and local government sub-systems and at publicly owned companies.

NUMBER OF SAO REPORTS ON PROPERTY MANAGEMENT IN 2014 AND 2017



In addition to auditing the adequate compilation of the balance sheets under the financial accounting standards during its audits on the final accounts, the SAO separately audits the property management of central budgetary institutions.

Based on the findings of the audits performed in the period of 2014–2017, less than half (45%) of the audited central budgetary institutions demonstrated adequate property management. On occasion, in the lack of asset utilisation contracts, the audited institutions did

The SAO's proposal:

Strengthening the audit of the exercise of proprietary rights and ownership control and hence, the enhancement of the ownership positions of public sector management, is of key significance, including the strengthening of the regulatory environment of projects.



The SAO report containing the findings of the audits on the exercise of proprietary rights over state property in 2017 is available by clicking on the highlighted disclosure serial number or can be downloaded from the SAO website (www.asz.hu).

17123



The summary prepared for the press (also containing the main findings) is available at the link marked "0".

17123-0



The SAO's proposal:

In the interest of ensuring property protection, preservation and accumulation as per the Fundamental Law and of enhancing the guarantees thereof, there is a need to strengthen the measurement and quantification of state property.

not lawfully utilise or recognise the state assets used for the performance of public tasks or the incomes collected from asset utilisation. In the period of 2014–2017, the percentage of organisations with adequate property management varied, as different institutions were put in the focus of the audits every year. Property management irregularities were extremely prominent at the audited social and child protection institutions in 2016 and 2017. A typical deficiency at the vast majority of the audited social and child protection institutions was the violation of the accounting principle of authenticity by incorrectly recognising the property managed in the financial statements, and owing to inventory taking and valuation deficiencies, property protection and the monitoring of changes in assets were not ensured.

In compliance with its statutory obligation, the SAO conducted audits on the exercise of proprietary rights over state property in 2017 as well. The audit conducted in 2017 found that despite the annual audits, the exercise of proprietary rights still exhibited deficiencies in 2015, although the regularity of the exercise of proprietary rights tended to improve.

FINDINGS OF THE 2014 SAO REPORT (ON THE EXERCISE OF PROPRIETARY RIGHTS OVER STATE PROPERTY)



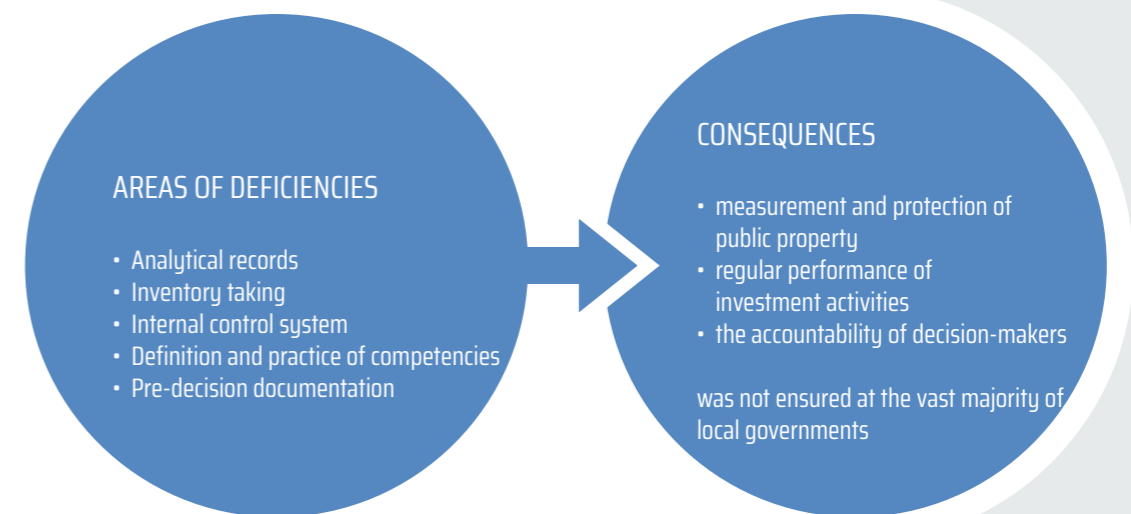
FINDINGS OF THE 2017 SAO REPORT (EXERCISE OF PROPRIETARY RIGHTS OVER STATE PROPERTY)



According to the findings of the audits conducted at state-owned companies in the period of 2014–2017, it was a basic shortfall that the companies did not meet their obligations related to the preservation and protection of national assets in all cases. Moreover, the owners' audits often failed to facilitate the companies' responsible management of assets. Some companies failed to ensure the transparency of data supply on the assets.

The SAO continuously audits property management at local governments and their budgetary institutions in the local government sub-system, as well as at local government-owned companies.

TYPICAL IRREGULARITIES IDENTIFIED DURING THE AUDITS OF LOCAL GOVERNMENTS IN 2014–2017 AND THEIR CONSEQUENCES



None of the city museums with county rights were able to comply with the requirements pertaining to the registration and lease of cultural goods comprising national assets; consequently, they failed to ensure the protection and safeguarding of the national wealth in their care.

The overwhelming majority of local government-owned companies have established the conditions for the performance of public duties. At the same time, audits between 2014 and 2017 often detected deficiencies concerning the companies' asset registration and property protection obligation. The registration of assets was not regular at almost half of the companies audited in 2017; the companies failed to take a full inventory of the asset items, or failed to support their balance sheet items by stocktaking. The protection of state property was not ensured at 40% of the companies. All this posed a threat to the regularity and transparency of property management and jeopardised the protection of national assets.

1.3. EXPERIENCES AND EFFECTS OF THE AUDITS ON THE ACCOUNTING SYSTEM

In line with the provisions of the SAO Act, programmes prepared for auditing the financial management of the audited entities extended to auditing compliance with the accounting rules of public finances. In keeping with its strategic goals, with its findings and recommendations concerning the accounting rules, the SAO improved the regularity of the use and utilisation of public funds and public property, promoted the transparency and order of public finances, and contributed to "good governance".

Public finance organisations commenced transitioning to accrual-based accounting from 1 January 2014 based on the new legislative requirements also encouraged and endorsed by the SAO. The transition to the accrual-based approach, the introduction of financial accounting based thereon and the resulting modifications implied a significant change in the reporting and book-keeping practice of budgetary institutions. Audit questions about the entities' preparations for the transition to accrual-based accounting and the proper implementation thereof were incorporated into the programmes of thematic audits conducted at local governments and central budgetary institutions alike.

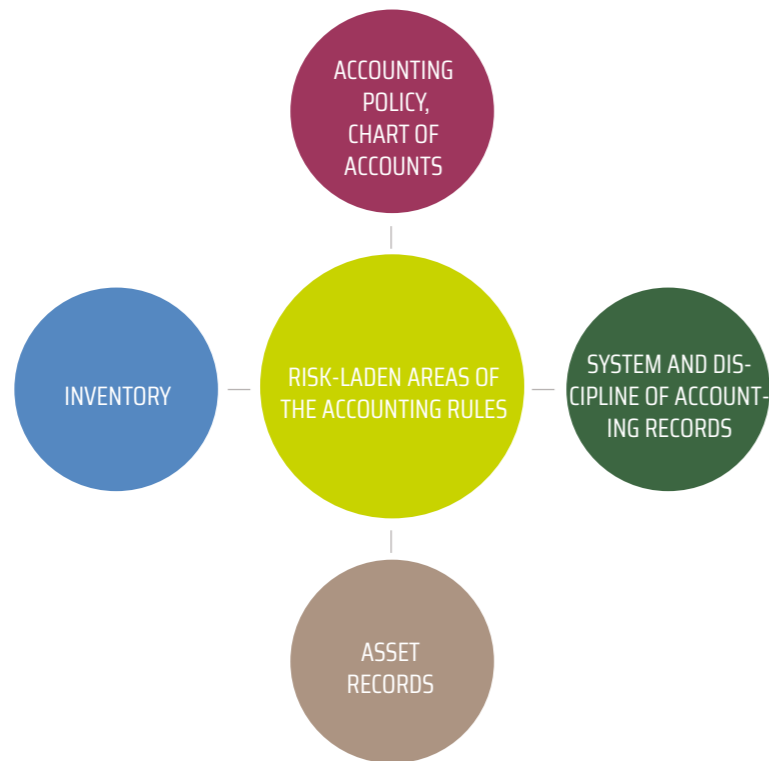
According to the audit findings, the audited entities have prepared, overall, for the transition to the new accounting system; however, establishing the related IT background was not a smooth process. Even the results of the questionnaire-based survey conducted among local governments pointed to the lack of an information technology background. Flaws were typically detected with respect to the compilation of the technical balance sheet, as some of the institutions failed to produce the technical balance sheet supported, as required, by a regular inventory, or missed the pre-defined deadline in preparing it.



The SAO's proposal:

Where a local government manages market securities transactions and financial instruments, it may be warranted to prescribe professional qualifications for the head of the local government office and for persons in charge of commitments and/or performance certificates.

- lack of updates or maintenance
- incomplete or legally non-compliant regulations



- lack of a certified inventory
- improper execution of inventory taking

- entering data in accounting records in the absence of properly issued accounting documents
- posting economic events to the wrong G/L account or in the wrong amount

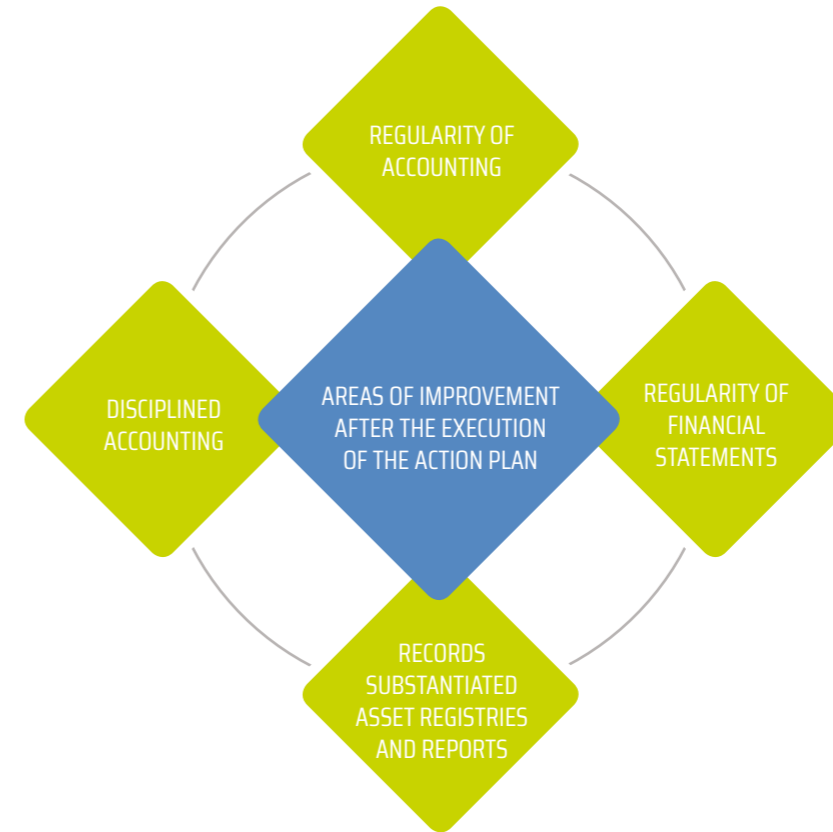
- incorrectly recognised asset items in the financial statements
- asset registration is in conflict with legal regulations

The SAO's audits regularly found deficiencies regarding the inventories that are intended to support the balance sheet contained in the annual report, or determined that the inventory-taking was incomplete or missing altogether. All this poses a risk to the authenticity of the annual reports.

Irrespective of the type of the audited entities, it occurred in every single area that certain asset items were improperly recorded or not recorded at all throughout the audited period or in a part thereof. In addition, it was a typical deficiency that the value of certain asset items was incorrectly defined in the balance sheet contained in the annual report.

Throughout the audited period or a part thereof, the social, child protection or education institutions and museums belonging to the central sub-system routinely recognised individual assets in their asset registry and hence, in the balance sheet of their annual reports, without backing it up with the relevant accounting documents. According to legislative requirements, asset items must be recognised at the asset manager; therefore, recognising asset items not managed by the institutions in the balance sheets called into question the authenticity of the audited entities' balance sheets.

The SAO formulated recommendations for the heads of the audited entities regarding the errors and efficiencies detected by the audits, in response to which the affected organisations drew up action plans. The SAO continuously inspected – also by way of follow-up audits – the utilisation of the findings at the audited entities.



As a result of the tasks executed, the quality of the financial management of the audited entities improved, overall. The SAO's advisory activity also facilitated better control system designs and the prevention of errors.

The SAO's findings with respect to the deficiencies identified at the audited state and local government-owned companies also affected the activity of the companies' auditors. By notifying the Prosecutor's Office and the Chamber of Auditors in the event of a breach of the accounting rules, the SAO facilitated an improvement in the audited entities' activities in relation to the accounting rules.

1.4. OTHER REGULARLY AUDITED PRIORITY AREAS

Establishing a balanced financial position, setting public debt on a sustainable path and facilitating economic competitiveness are of key significance in the management and operation of public finances. With that in mind, the SAO has paid special attention to auditing and analysing these areas in recent years.

Financial position, financial management, public debt

Pursuant to the Fundamental Law, as long as public debt exceeds 50 per cent of GDP, public debt-to-GDP (the debt ratio) must be improved continuously. The Stability Act, in turn, defines the concept of public debt and the extent of the reduction (debt rule).

The State Audit Office of Hungary pays particular attention to auditing activities and organisations having a direct influence on the enforcement of the debt rule. Accordingly, upon commenting on the budget bill and auditing the final accounts, the SAO assesses developments in public debt each year, and in 2012 and 2015 it took the initiative to audit the effectiveness of public debt management independently.

Besides the audits, the SAO also prepared an analysis on the operation of the general government's debt management system. The analysis complemented the specific findings of the audits with a presentation of the process and results of debt management between 2012 and 2015 and with a general international comparison.

The SAO regularly audits the financial position and financial management of individual budgetary institutions. It assigns priority to the audits of local governments associated with a relatively greater financial management risk. The summary findings of the assessment of

The SAO's proposal:

The bureaucracy in ongoing finances should be reduced significantly by rethinking the competencies in public finance.

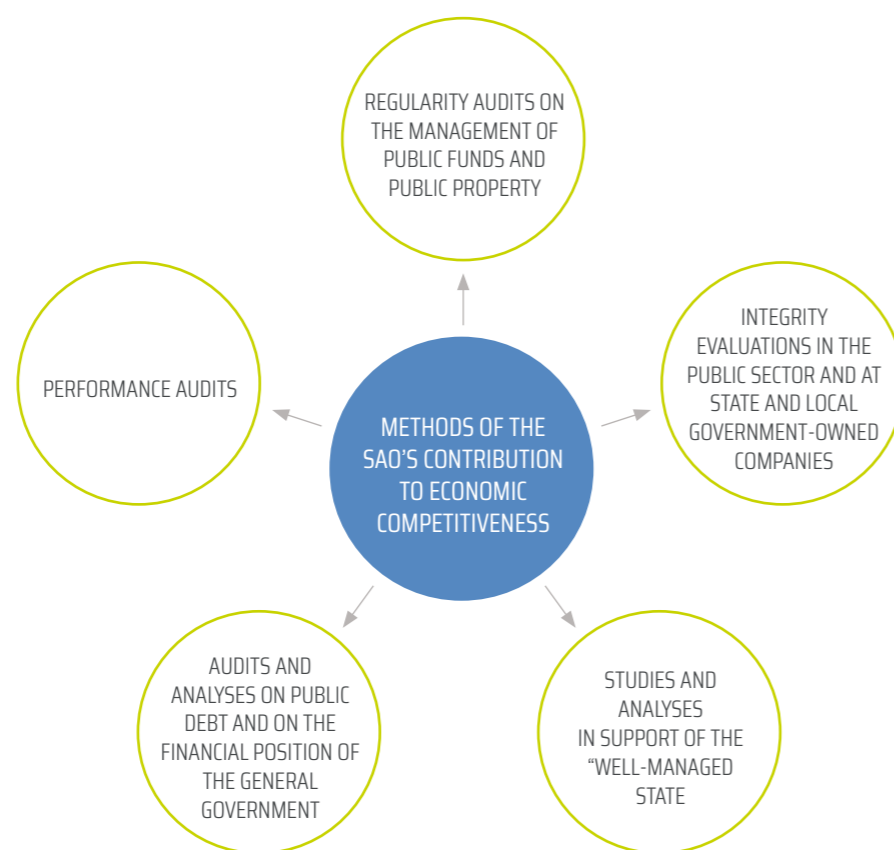
local governments are included in Chapter 6.1. Applied since 2017, the SAO's local government monitoring system may contribute effectively to establishing the financial balance of local governments.

Among budgetary institutions, the typical deficiencies detected by the SAO's audits in the area of financial management included the modification of appropriations, the use of expenditure appropriations, the definition of appropriation residues and record-keeping.

Economic competitiveness

With its audits and analyses, the State Audit Office of Hungary focuses on the objective factors determining the country's competitiveness. The basic requirements that influence Hungary's competitiveness the most – including public debt and deficit – are set out in the Fundamental Law. The transparency, legality, expediency and effectiveness requirements defined in the Fundamental Law must be borne in mind by all business associations managing public funds and public property.

An improvement in sustainable economic growth may correlate with efforts to ensure the regularity of financial management and with the intention to stabilise the financial position through the audits.



Based on the analysis experiences of the State Audit Office of Hungary, the conclusion may be drawn that the objective macroeconomic indicators of the Hungarian economy, and thereby its competitiveness, have improved. The debt ratio is on the decline and shows a significant implicit reserve that provides ample room for policy manoeuvre. The growing trend in the centralisation and redistribution rate observed in recent years has reversed; in addition, the unemployment rate declined and the number of people in employment was higher than ever been since the regime change.

1.5 SYSTEM-LEVEL RECOMMENDATIONS AND THEIR UTILISATION

Based on its audit experiences, the SAO has made several proposals and initiatives over the past few years with regard to the need to improve certain areas of public finance. Some of them were expressed in the SAO's Report on its activities in 2016, while others were raised at various forums through its advisory activity. Several measures have been taken by government bodies in response to its proposals and complex recommendations.

Complex recommendation items and their utilisation

Through its advisory activity the SAO has offered complex recommendations in recent years with subsequent implementation in the following areas:

- transition to accrual-based accounting,
- transition to more expedient, risk-based tax office operations,
- strengthening the control over prohibited contributions to political parties and tightening the use of campaign funds.

The implementation of the following complex recommendations is in progress:

- strengthening the system of the local government debt settlement procedure,
- commencing the reform of public sector management in the case of business associations managing national assets,
- extending the culture of integrity in the framework of broad-based international cooperation,
- on the issue of accounting for the budget residue, the amendment of the government decree on the implementation of the Act on Public Finance (Áht) created a more transparent framework for the financial management of the budget residue; however, there is still a need to rethink how to manage the risks posed to the financial management autonomy of "constitutional chapters" subordinated to the National Assembly and the prevailing laws.

Analyses prepared in relation to the proposals included in the SAO's Report on its 2016 activity and initiatives made in this regard

In its 2016 Report on the SAO's professional activity and operation, based on its audit experiences, the SAO formulated a number of proposals for the National Assembly on the need to review a total of four regulatory areas affecting public finances.

The proposal addressing the **debt settlement of local governments** expressed a need for a legislative environment that efficiently addresses both the underlying reasons of indebtedness and creditors' interests and imposes adequate sanctions on irresponsible financial management or non-compliance with the rules.

Initiative:

The SAO has collected its audit experiences regarding the debt settlement of local governments, and informed the ministries concerned of its findings.

The proposal formulated in the interest of **transparent and responsible management of public assets** concerns security measures to be implemented by the SAO when detecting the improper use of public funds, or wasteful financial management.

Initiative:

Several legal analyses have been produced on the subject of the protection of state property, in which the SAO summarised, based on its audit experiences, the main rules of registering and stocktaking of state property by the owner and by the asset manager, along with the relevant best practices. The analyses identified a number of points in the regulations that, by clearly identifying the responsibilities and the tasks, ensure that the registry of state property is complete and up-to-date. The SAO notified the competent minister in charge of the supervision of state property of its findings.

The SAO indicated that the regulations on **disclosures** need to be revised. In addition, it also

AREAS OF THE SAO'S PROPOSALS PUT FORWARD IN ITS 2016 REPORT

- LOCAL GOVERNMENT DEBT SETTLEMENT
- RESPONSIBLE MANAGEMENT OF PUBLIC ASSETS
- DISCLOSURE OBLIGATION
- AUDIT INSTITUTIONS



2. Supporting the concept of the “well-managed state”

In accordance with its strategy, the mission of the State Audit Office of Hungary is to promote the transparency and regularity of public finances with its value creating audits performed on a solid professional basis, thus contributing to the concept of the “well-managed state”. By now, good governance has become a concept that can be described with a complex set of criteria against which the performance of individual economic policies and state organisations can be measured. Moreover, the SAO Act provides for the supreme audit institution’s contribution to the functioning of the well-managed state.

The role of supreme audit institutions in supporting good governance has not been explained so far at the international level by means of a comprehensive model. Therefore, in consideration of its mandate and the duties enshrined in the SAO Act, the State Audit Office of Hungary has constructed a model to provide an overview and a classification of the contribution of supreme audit institutions to good governance.

The SAO’s audits and analyses in recent years have put into focus the SAO’s contribution to increasing Hungary’s economic competitiveness by facilitating the effectiveness and efficiency of government measures. In selecting the topics of its audits and analyses, the SAO takes into account both the EU’s growth strategy (Europe 2020) and the UN’s sustainable development framework (Agenda 2030) – including the building up of integrity. The Hungarian Government is also committed to these directions.

OUR PERFORMANCE IN NUMBERS IN SUPPORT OF THE WELL-MANAGED STATE IN 2017

7 SAO reports

9 Analyses and studies

12 Informal reports to Members of Parliament

stressed the importance of strengthening the management and quality-oriented culture of institutions and economic operators.

Initiative:

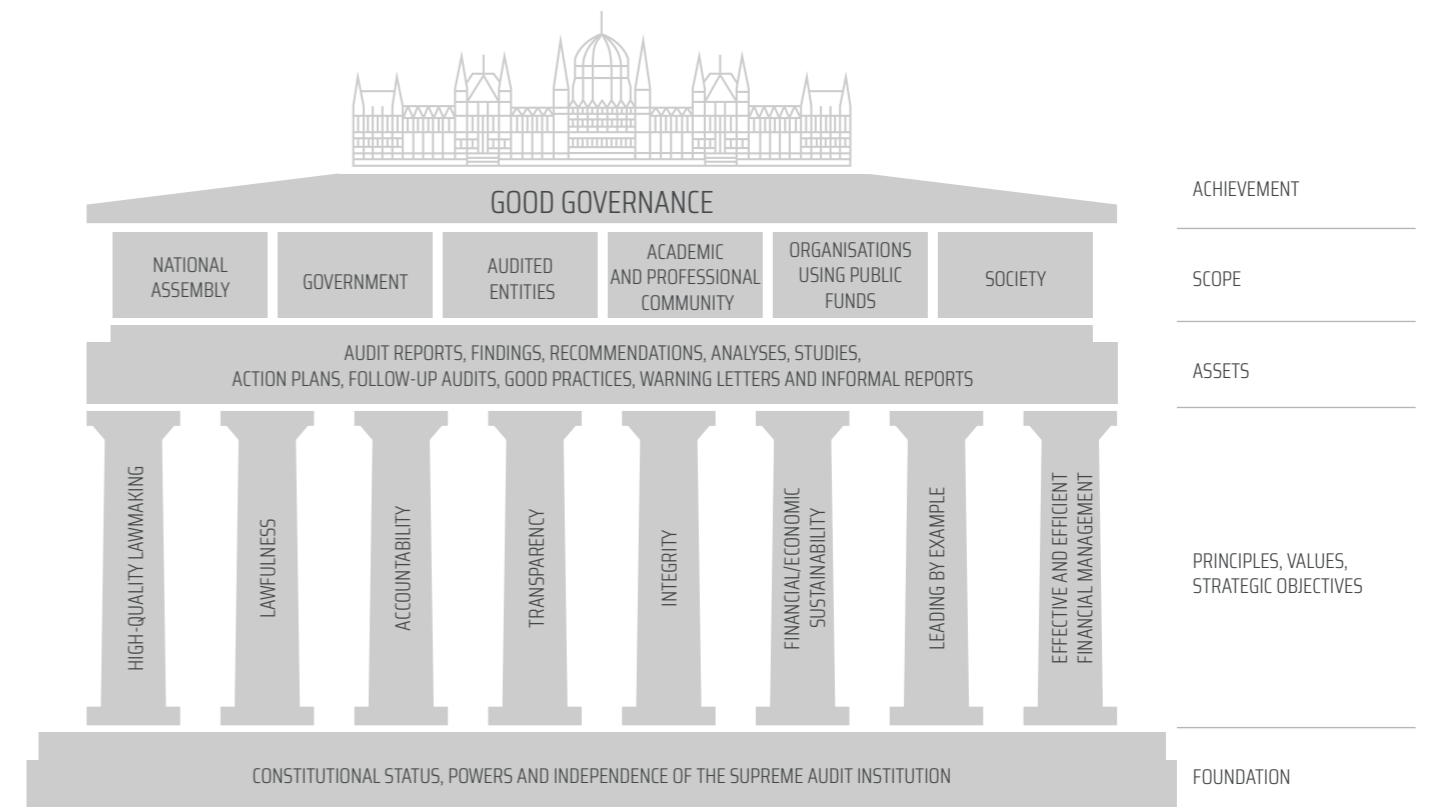
Following a comparative legal analysis, the SAO wrote a letter to the Minister of Justice on the topic. The SAO’s analysis found that, in addition to expanding the range of the data to be disclosed, a possible direction of transforming the disclosure requirements of the current Privacy Act is narrowing down the range of requests. Moreover, the SAO suggested further directions with a view to simplifying the existing rules and avoiding redundancies.

In its proposal, the SAO emphasised the need for strengthening the quality assurance and sanctioning of the work performed by **audit institutions**, at least as it concerns the certification of the activities of organisations involved in public finances by market participants.

Initiative:

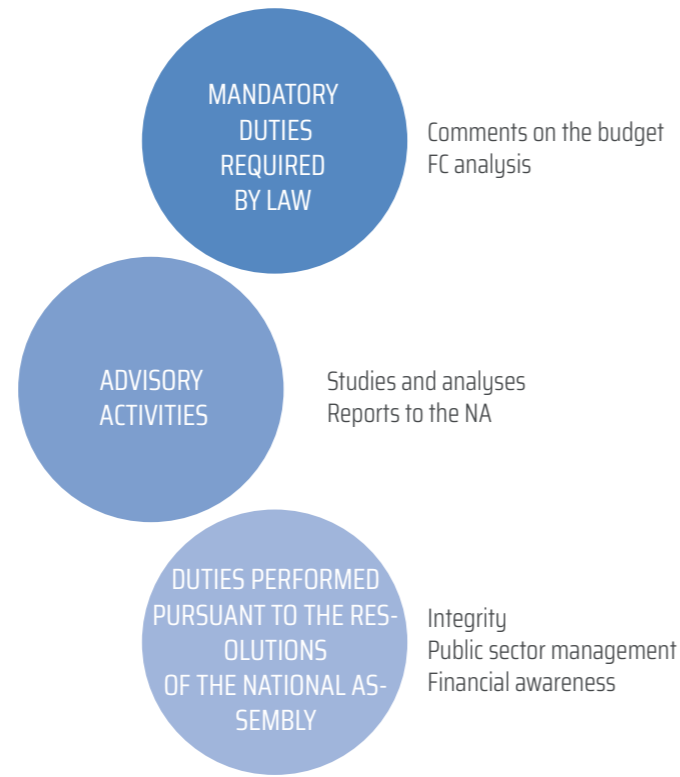
On this subject, the SAO has prepared a legal analysis on the role of auditors in the protection of state property. In the analysis it concluded that, in auditing public property, the auditor function cannot fulfil the role of public property protection in view of the fact that the auditing of private and public entities are governed by uniform auditing rules. The SAO contacted the Ministry for National Economy on the matter, and consultations regarding the required measures commenced.

CONTRIBUTION OF SUPREME AUDIT INSTITUTIONS TO GOOD GOVERNANCE HUNGARIAN MODEL



Relevant NA resolution

advisory activity related to management systems and supporting ethical leadership training in the area of public finances pursuant to Government Decree No. 34/2015 (VII. 7).



2.1. PUBLIC SECTOR MANAGEMENT, RESPONSIBLE MANAGERIAL CONDUCT

The well-managed state is a public interest that implies the setting up and operation of a performance evaluation system that improves the organisation's performance and contributes to taking advantage of development opportunities. The leaders of the organisation play a decisive role in the operation of the organisation. The enhancement of management performance evaluation is a timely issue; indeed, a system measuring the performance of the leaders contributes to the reform of public administration and to the implementation of the strategic goal of setting up an efficient national public administration system as set forth in Article XXVI of the Fundamental Law. In this area, as well, the State Audit Office of Hungary supports the implementation of good governance by way of its audit and evaluation activity.

One of the purposes of the advisory activities pursued by the State Audit Office of Hungary is to propagate knowledge-sharing and the use of "good practices", as well as to enhance public finance and management skills in public sector organisations. This goal was confirmed by the National Assembly.

To this effect, the SAO strives to work together with the other constitutional institutions and with higher education institutions, placing ethical financial management in the focal point of their educational and research activities.

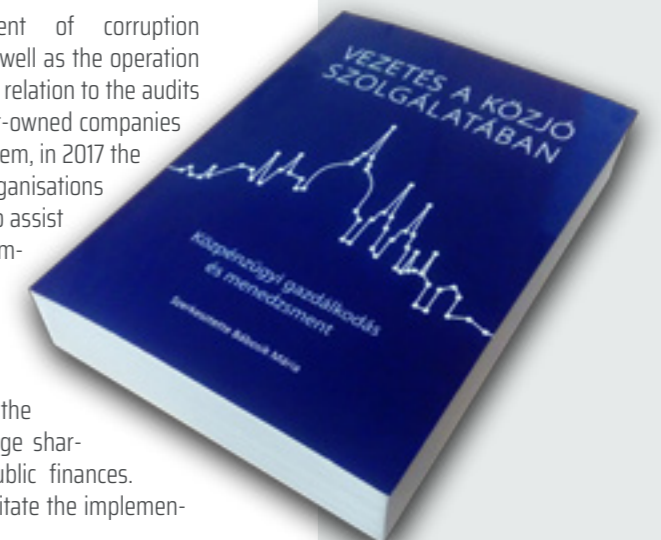
In its resolution, the National Assembly empowered the State Audit Office of Hungary to widen its consultancy activities concerning the management systems in respect of organisations involved in managing public funds and public property, and to support the training of ethical managers in public finance. Moreover, Government Decree No. 1660/2015 provides that the activity of the heads of majority state-owned companies should be continuously assessed from the aspects of regularity, effectiveness and economy, and that the heads of state-owned companies are required to abide by strict ethical and integrity principles. In accordance with these requirements, with respect to state and local government-owned companies, on the basis of a risk-based selection procedure, the State Audit Office of Hungary evaluated the performance of executive officers for a predefined period. For the safeguarding and protection of national assets, the management performance evaluations were extended to specific central budgetary institutions as well.



In line with the provisions of the Fundamental Law, during its audits the State Audit Office of Hungary judges the performance of the head of an organisation using public funds or public property primarily based on the extent to which they enforce the requirements of lawfulness, effectiveness and expediency in their managerial activity. Developing proposals affecting the quality of management using the findings of the audits of state-owned companies is a starting point in determining the requirements for public sector management. As of October 2016, a government decree stipulates that it is the responsibility of the heads of public sector institutions to establish an internal control system capable of ensuring the enforcement of ethical values and integrity in all scopes of activity. The integrity approach assigns priority to the prevention of corruption, which increases the responsibility of the leaders of the organisation as it assumes that the leader explores and raises awareness about the corruption risks threatening the given organisation based on corruption risk analysis. Another feature of integrity is its emphasis on the importance of expressing and following positive values. Possible tools in this endeavour are a value-oriented strategy and mission statement, a code of conduct and leading by example.

Since 2016, the assessment of the management of corruption risks and the coverage of protection against corruption as well as the operation of controls have constituted an integral part of our audits. In relation to the audits on the financial management of state and local government-owned companies and budgetary institutions belonging to the central sub-system, in 2017 the State Audit Office of Hungary evaluated the leaders of the organisations concerned for the year 2015. The purpose of the audit was to assist the work of the audited entities through audit findings, recommendations and advice, and to contribute to the responsible and sound exercise of the powers of controllers and employer's rights.

With a view to disseminating "good practices", in 2017 the SAO continued the series of events dedicated to knowledge sharing, and supported the training of ethical leaders in public finances. The training of top-ranking executives was intended to facilitate the implemen-

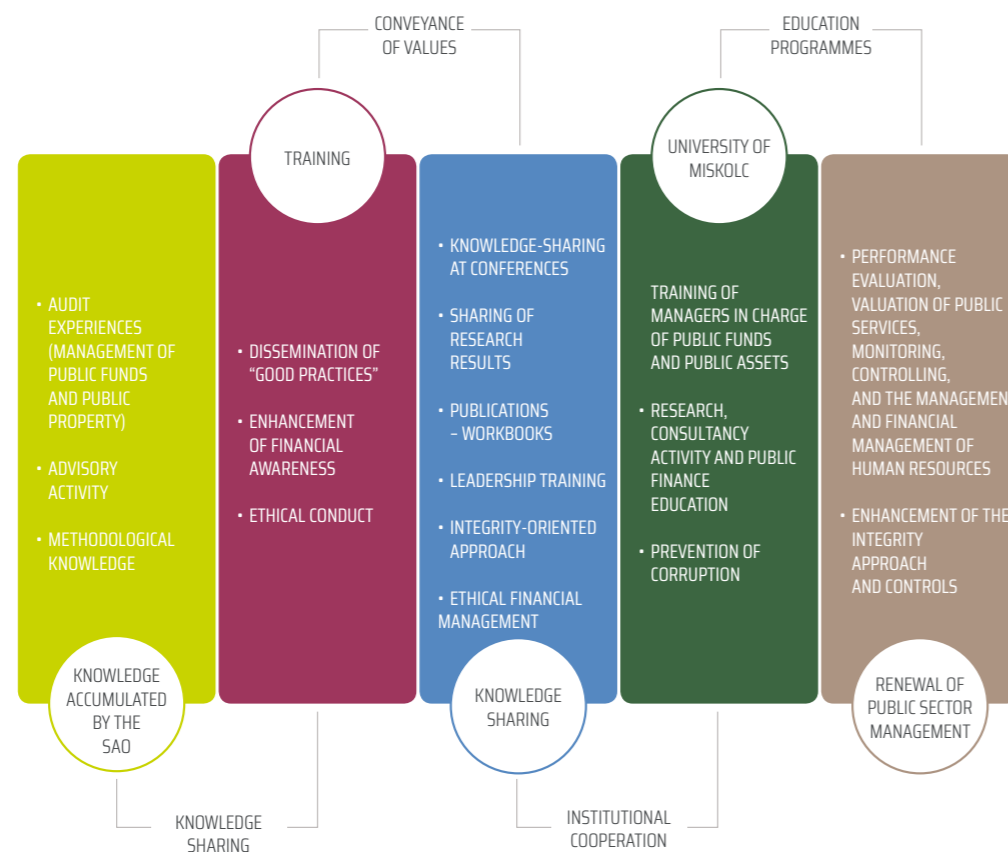


tation of common goals and to foster the operation of the well-managed state by enhancing public finance and managerial skills. In January 2017, the SAO and the University of Miskolc held a “good practices” seminar entitled “Ethical Leadership, Integrity and Performance Management in the public sector”. The common endeavour of the two institutions is to scientifically substantiate a leadership training course material, where the measurement and assessment of ethical leadership conduct and leadership performance are intertwined at the levels of both theory and practice.

Institution leaders in the public sector should not only possess professional knowledge but also managerial skills; accordingly, they should train themselves continuously to meet the increasingly more complex expectations on them. The SAO’s leadership training programme provided assistance in this regard, firstly to museum directors. For the first time, the SAO’s October 2017 “good practices” seminar entitled “Management of Public Service Organisations – Museums in Focus” was supplemented by a 50-hour training module.

In order to implement the National Assembly’s resolution prescribing the broadening of the advisory activity related to management systems and supporting ethical leadership training in the area of public finances, the State Audit Office of Hungary also initiated the compilation of a workbook for public sector leaders. Intended for the management of organisations using public funds, the book entitled “Management in the Service of Public Good” was published in 2017. The purpose of the book is to share the latest knowledge on management, organisational science and financial management with a focus on organisational integrity, while bearing its public service mission in mind. Several experts of the SAO – including the President of the State Audit Office of Hungary – actively participated in the conception of the book.

THE SAO’S CONTRIBUTION TO THE DEVELOPMENT OF PUBLIC SECTOR MANAGEMENT



2.2. OPINION ON THE 2018 BUDGET APPROPRIATION BILL OF HUNGARY

Each year, the SAO comments on the budget bill submitted to the National Assembly, and prepares an analysis for the Fiscal Council’s comment on the draft budget bill and on the last version of the bill before the voting takes place. Meeting its statutory obligations under the SAO Act, the State Audit Office of Hungary has compiled its opinion on the Bill on the 2018 Central Budget of Hungary. In its opinion, the SAO comments on a specific state of budgetary planning in light of its legal compliance and in light of the extent to which the revenues and expenditures are substantiated and feasible. The purpose of commenting on the bill is to assist the National Assembly in adopting a budget that is substantiated and capable of managing risks that may realistically arise through passing new laws and adopting amendments. With its opinions expressed during the debate of the budget bill and its analyses, the State Audit Office of Hungary continuously supported the crafting of the budget for 2018, and also contributed to the transparency of budgetary planning. Based on the latest, 2017 report on the bi-annual international Open Budget Survey (OBS), the SAO performs its role adequately in ensuring the transparency of the central budget, and the quality of the SAO’s opinion (report) on the budget is even better than the average of developed countries.

Findings

The SAO found the bill on the 2018 central budget to be substantiated, and that the revenue appropriations can be met provided the macroeconomic forecast taken into account during the planning of the budget materialises. The bill complies with the debt rule specified in the Fundamental Law and, save for one requirement, all statutory requirements concerning the budget, and it contributes to maintaining the fiscal stability of Hungary. At the same time, budgetary decisions still require consistent budget management at both central and local level, as well as other organisations within the government sector.

The analysis on the 2018 budget bill calls attention to the key risk factors surrounding the revenue and expenditure appropriations of the budget.

The SAO prepared another analysis for the Fiscal Council on whether the version of the budget bill prepared for the final vote meets the debt-to-GDP ratio reduction requirement set out in the Fundamental Law.

2.3. INTEGRITY

Upon the call of the National Assembly, the State Audit Office of Hungary has been involved in adopting, disseminating and strengthening the culture of integrity for nearly ten years. Evaluating the enforcement of the integrity approach plays a significant part in the SAO’s reports. The SAO has been conducting annual surveys evaluating the integrity status of public sector institutions since 2011. Starting from 2015, it also conducts surveys among state-owned companies. The purpose of the audits is to improve the internal control system, while the surveys are intended to provide a feedback to public sector institutions and business associations on their integrity risks and on the coverage of the controls managing the risks. 3,346 public institutions participated in the survey conducted in 2017.

In 2017, the State Audit Office of Hungary published two integrity reports. Based on the data of the 2016 survey, the SAO published an analysis evaluating the integrity risks and controls of public sector institution groups in which, for the first time, the SAO linked the Hungarian State Treasury’s database to the results of the survey. This was also the first time that special controls for high-risk situations could be examined independently. The results of the research indicate that the higher risk levels of public sector institutions are coupled with a higher level of control coverage. However, different institution groups perform differently, and their inadequate levels of integrity affect substantial amounts of public funds and public assets. In the areas of control coverage and ethical management, larger organizations with more stratified management systems are leading the way.

The second report of the SAO assessed the integrity status of the public sector for 2017. The analysis found that the ratio of risks uncovered by controls declined; in other words, the level of integrity systemically improved among public institutions.



The SAO report presenting the comments contained in the SAO’s opinion on the budget and the announcement of its disclosure are accessible by clicking on the highlighted disclosure serial numbers, or can be downloaded from the SAO website (www.asz.hu).

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The analysis prepared for the Fiscal Council for the budget bill version preceding the final vote is accessible by clicking on the highlighted publication number, or can be downloaded from the SAO website (www.asz.hu).

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What is the Open Budget Survey?

The biennial Open Budget Survey (OBS) evaluates the pillars of budgetary accountability (transparency, supervision, public participation) based on a comparative method that is independent of the prevailing governments. Developed in accordance with international standards, the OBS survey also assesses the extent to which a particular country’s supreme audit institution (state audit office) contributes to the transparency of the central budget. Its methodology also addresses the supreme audit institution’s performance of its duties both in terms of quality and level of independence. The survey is conducted by the International Budget Partnership (IBP) in conjunction with research institutes and civil organisations worldwide.

Relevant NA resolution

Pursuant to NA Resolution No. 35/2009 (V. 12.), strengthening the SAO's role in mapping corruption risks

Changes affecting the institutional system (structural transformations, changes in legal status, increase/decrease in the scope of duties) influenced the changes in risk and control indicators as well.

Although the integrity approach has solidified, its dissemination shows a varied picture by public institution and sector. Risks arising from the encounter of public institutions with the private sector are particularly significant. Accordingly, the SAO has examined the integrity status of public services, administrative powers, public procurements and other business relations between the public sector and the private sector, as well as the employment of experts.

Based on the experiences of previous surveys, in October 2017 the State Audit Office of Hungary launched its survey covering business associations majority-owned by the state or local governments. 752 companies participated in the survey.

The maintenance period of the Integrity Project launched in 2009 expired in 2017; therefore, the survey has reached an important milestone. The SAO is no longer obliged to conduct the survey on a mandatory basis. Nevertheless, at the annual integrity meeting of the institutions on 11 December 2017, the Ministry of the Interior, the Ministry of Justice, the Curia, the General Prosecutor's Office, the National Office for the Judiciary, the Public Procurement Authority and the Governor of the National Bank of Hungary requested the State Audit Office of Hungary to continue the surveys in some form. Similarly, the Government requested the State Audit Office of Hungary via Resolution No. 1239/2017 (IV.28) to ensure that the Integrity Survey is carried out annually until 2018 in respect of companies in majority state and local government ownership in respect of the measures related to the National Anti-Corruption Programme.



The analysis prepared based on the 2016 integrity survey is accessible by clicking on the highlighted publication number, or can be downloaded from the SAO website (www.asz.hu).

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The analysis prepared based on the 2017 integrity survey is accessible by clicking on the highlighted publication number, or can be downloaded from the SAO website (www.asz.hu).

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2.4. SUSTAINABLE DEVELOPMENT

Striving to ensure sustainable development, efficient energy utilisation and the reduction of the ecological footprint and making continuous efforts to improve the quality of life, are objectives enshrined in the common agreement between the European Union and the Member States. With a view to achieving these objectives, Hungary has made national-level commitments in which public institutions are expected to play a prominent part. With the adoption of its Resolution No. 18/2013 (III. 28.), the National Assembly launched the National Sustainable Development Framework Strategy, empowering the SAO to proceed in its own competence in order to inspect compliance with the restrictions applicable to economic resources. The SAO wishes to contribute to ensuring sustainable development through its audits as well, in the framework of which it evaluates the implementation of national goals and the efficiency of the measures taken in separate audits. Accordingly, in 2017 the SAO audited the situation of the chimney sweep public service and the system of ragweed control.



Audit of the chimney sweep public service

The compliance of the chimney sweep public service is of paramount importance to a broad layer of the society in terms of life and property protection. The legislative environment of the area has changed repeatedly and significantly in the past few years. The SAO audited the public service for the period of 2013–2015, assessing the compliance of task performance as per the legal regulations in effect until 30 June 2016.

Findings

The SAO found that despite the essentially compliant task performance of the relevant local governments and disaster management directorates, the public service providers' discharge of the public service was overall inadequate.

Based on the household survey pertaining to the chimney sweep public service, the life and property protection objectives were not fully met, in consideration of the fact that the service provider failed to carry out 7 per cent of the mandatory chimney inspections in 2015. That notwithstanding, the population was overall satisfied with the quality of the chimney sweep service. In some cases, respondents expressed dissatisfaction regarding the expertise or work performance of chimney sweeps or the quality of the service.



The SAO report containing the findings of the audit is accessible by clicking on the highlighted disclosure serial number, or can be downloaded from the SAO website (www.asz.hu).

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The summary prepared for the press (also containing the main findings) is available at the link marked "0".

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Audit on the ragweed control system

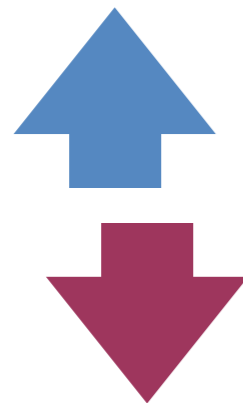
The proliferation of ragweed has many negative implications in Hungary. In agricultural areas ragweed reduces the volume of crops, while the high pollen level of ragweed causes health problems and generates significant healthcare expenditures. The audit on ragweed control adds to the number of audits conducted by the State Audit Office of Hungary in relation to the topic of sustainable development.

Although significant resources have been devoted to ragweed control for years, despite these efforts, the concentration of ragweed pollen remains high. Therefore, the purpose of the audit was to assess whether the ragweed control system operated appropriately, whether the authorities involved in the system of detection, sanctioning and public control fulfilled their related duties in compliance with the requirements, and whether ragweed control measures promoted the accomplishment of long-term goals.

Findings

One of the most important findings of the audit was that the measures aimed at ragweed control in the period of 2013–2015 facilitated, but did not ensure the implementation of long-term goals. The objectives aimed at the reduction of health risks caused by biological allergens were not achieved.

Positive findings and deficiencies detected by the audit



- the regulatory environment is in place
- professional coordination, control, inspection and reporting by the Ministry of Agriculture and Rural Development (FVM) were regular
- information technology systems are in place and in use, their enhancement has been completed
- on the whole, conditions for the performance evaluation of ragweed control have not been established
- insufficient information on the expenditures of ragweed control and on the infected areas
- in several cases, government offices and notaries participating in the system of public control carried out their tasks irregularly
- the size of the area covered by the public control, as well as the number of days spent by government offices on inspections both showed a declining trend

In order to eliminate the deficiencies, in the SAO's opinion the objectives, system and methods of ragweed control should be reviewed based on previous experiences and research results; if necessary, the system needs to be reformed in order to ensure that ragweed control effectively contributes to the reduction of the pollen concentration of ragweed.



The SAO report containing the findings of the audit is accessible by clicking on the highlighted disclosure serial number, or can be downloaded from the SAO website (www.asz.hu).

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The summary prepared for the press (also containing the main findings) is available at the link marked "0".

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2.5. ADDITIONAL PRIORITY AUDITS IN SUPPORT OF THE WELL-MANAGED STATE

The SAO's audits related to certain topics represent increased contributions to the identification of and awareness-raising pertinent to the problems, risks or good practices of a certain public sector functional area or subsector. The audit results and recommendations can be used for the more effective and efficient management of the given area.

Audit of the operation of the information system of public finances and the official statistical service

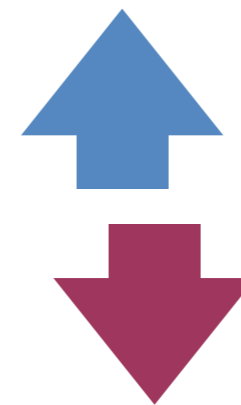
The information system of public finances and the statistical service are reliable and their proper functioning has a fundamental role in enabling the Government, and more extensively, the economic and societal participants to make their respective decisions based on veritable and credible information. It provides assistance in analysing socio-economic processes and exploring linkages, and it supplies information to the institutions affecting both the international and the Hungarian economy. All of this is a prerequisite of good governance on the one hand and, on the other, it facilitates economic efficiency and ensures that goods are utilised as optimally as possible at the levels of the economy and society. By auditing the information system of public finances and the operation of the statistical service between 2014 and 2015, the State Audit Office of Hungary has promoted the enforcement of good governance, and supported compliance with the increased social expectations aimed at establishing transparency.

Findings

The SAO concluded that in 2014 and 2015, the operation of the information system of public finances performed by the Ministry for National Economy and the Hungarian State Treasury was in line with statutory provisions. However, the level of the internal regulation of operations did not ensure the accountability of task performance.

The transfer of data between the information system of public finances and the official statistical service, and the generation of statistical data was performed in compliance with statutory provisions: they supported the planning of the financial processes of public finances, the establishment of appropriations, the execution and auditing of the budget as well as the regular generation of data.

Positive findings and deficiencies detected by the audit



- compilation of statistical data
- data receipt
- level of internal regulation

Audit of data protection

National data assets that are part of national assets are made up of data of public interest managed by organisations performing public tasks, personal data and data made public on the grounds of public interest. Ensuring the security of such data assets is essential in the interest of reinforcing the trust of citizens placed in the state and of the continuous and uninterrupted operation of public administration. By auditing the period of 2011–2015, the SAO has promoted the enforcement of good governance, contributed to protecting national assets, and supported audited entities in complying with increased social expectations aimed at establishing transparency.



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AUDITED ENTITIES:





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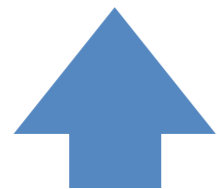
Findings

The SAO concluded that in the period of 2011–2015, the level of internal regulation of the data processing activity of data controller organisations adequately ensured, in line with legal regulations, the protection of national data assets that constitute a part of national assets. In practice, data controllers properly applied the provisions aimed at secure data management and the outsourcing of data processing; the transfer of data to third parties was carried out based on proper authorisation and clearly delineated responsibilities and competences. However, the classification of the electronic systems used for data processing and the organisation as a whole according to security class and security level did not always comply with legal provisions. This represented a vulnerability risk with respect to data protection, which was also exacerbated by the absence of administrative control procedures.

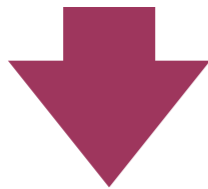
Recommendations

As a result of the audit, the SAO formulated recommendations addressed to the Presidents of NAIH, the Treasury and OH, the heads of NEIH and NTCA, the Director General of ONYF and the National Health Insurance Fund (as OEP's legal successor), as well as the Minister heading the Ministry of the Interior (as the head of the legal successor of KEKKH).

Positive findings and deficiencies detected by the audit



- protection of data assets



- security classification
- administrative control procedures

Audit of the institutional system of child protection services

Findings

The SAO found that the effectiveness of the child protection system improved in the priority areas intended to facilitate child rearing in a family environment; however, the overall effectiveness of the operation of the institutional system of child protection did not improve between 2011 and 2015. The requirements of transparent and accountable public spending and the responsible management of public property were not enforced in the child protection segment. The audit detected numerous irregularities in the activities of both central and local government operators as well as in the operation of the system.

Central and local government operators failed to define objectives, target values, indicators and deadlines for performance evaluation in relation to the child protection and child welfare services within their spheres of competence, and did not monitor the accomplishment of the – occasionally pre-defined – goals and tasks. In the lack of pre-defined indicators and the regular evaluation thereof, the entities failed to monitor the completion of the strategic tasks related to child protection activities providing human services.

Based on its own effectiveness indicators, with respect to child protection task performance providing human services, the SAO concluded: the task performance of the centrally operated institutional system improved in a number of priority areas that serve the goal of child-rearing in a family environment, such as placing children below 12 in foster care, or the adoption of children in the "10-" age group. At the same time, results deteriorated, overall, in other areas. The task performance of the local government system in relation to basic child welfare services and in relation to the daytime care of children was effective and stable; however, the percentage of children permanently exiting temporary care and entering home care did not show any improvement, overall.



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Conclusions

With its audit, the SAO contributed to the efforts to put in place an institutional system for child protection services that is sustainable in the long run and geared toward a family-based child-rearing environment; moreover, it promotes equal opportunities for all disadvantaged children, builds on threat-based prevention and supports the return of children to the family

Recommendations

Although the SAO did not formulate any recommendations in its report, it notified the relevant county government offices if the audited local governments in their territory failed to perform some child protection-related tasks. In order to facilitate regular task performance, the SAO sent warning letters to the mayors of 60 audited local governments and to the Director General of the Directorate General for Social Affairs and Child Protection. The mayors of the affected local governments and the Director General of the Directorate General for Social Affairs and Child Protection notified the President of the SAO in writing of the actions taken in response to the warning letters.

Audit and analysis on the EU's research-development and innovation support

The regular use of EU funding for research-development and innovation in line with the pre-defined objectives is of utmost importance for the future economic performance of the country. By auditing the system that tracks the use of EU funding for research-development and innovation, the State Audit Office of Hungary contributes to the regular and more efficient use of the funds and hence, to increasing gross domestic product.

Findings

With respect to EU-funded RDI support, continuous task performance was ensured even during the restructuring of the domestic system of institutions in 2014. The delivery/receipt of the tasks of managing bodies, however, did not always comply with legal regulations.

While the operating conditions of the system monitoring and evaluating EU-funded RDI support were ensured, legal regulations were not always adhered to. On the whole, the establishment of the tracking system of intermediate bodies was compliant with legal regulations, but their operation was not.

Recommendations

In its report, the SAO made recommendations to the Minister of Human Capacities and to the Minister for National Economy, in response to which the audited entities prepared action plans.

Analysis

The effectiveness of RDI activities is of key significance also for the enforcement of the debt rule, which is one of the pillars of Hungary's competitiveness and economic growth. It was with that in mind that the State Audit Office of Hungary dedicated a separate analysis to this area. Another reason for the preparation of the analysis was the fact that Hungary is spending an increasing portion of GDP on research-development and innovation, which – given the growing GDP figures – implies a dynamically increasing amount.

The analysis showed that RDI expenditures amounted to 1% of GDP or even less until 2008. Subsequently, the ratio was consistently above 1%. This stagnation did not benefit research and development activity, which exerts its effect over a longer horizon.

The analysis pointed out that the improvement in Hungary's innovation performance is hindered most by the modest ability of small and medium-sized enterprises to engage in innovation processes, and by the low number of innovation-based small enterprises established.



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17145



The summary prepared for the press (also containing the main findings) is available at the link marked "0".

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The study is accessible by clicking on the highlighted publication number, or can be downloaded from the SAO website (www.asz.hu).

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2.6. ADDITIONAL ANALYSES AND STUDIES IN SUPPORT OF THE WELL-MANAGED STATE

The SAO prepares studies and analyses in support of the well-managed state focusing on diverse and increasingly widespread topics. Besides supporting the work of the Fiscal Council, this year's analyses focused on the governance of public institutions and various dimensions of economic competitiveness.

Analysis for the Fiscal Council on the budgetary processes in the first half of 2017

Pursuant to the Stability Act, the Fiscal Council (FC) provides an opinion semi-annually on the status of the execution of the Act on the Central Budget as well as on the expected changes in public debt. In accordance with the provisions of the Stability Act, the State Audit Office of Hungary assists the work of the President of the SAO as a member of the FC by providing the FC with analyses on the issues discussed by it. By evaluating the budgetary processes of the first half of 2017, the SAO assisted the FC in formulating an informed opinion on the processes of 2017 H1.

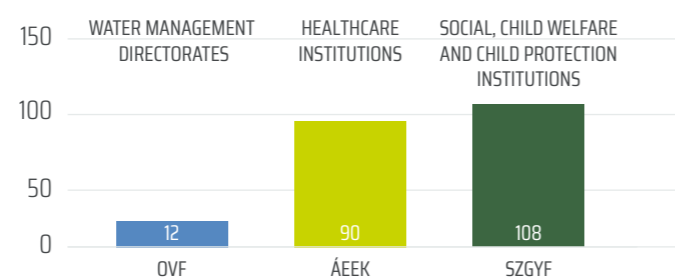
Analysis on the audit experiences regarding the operation of mid-level governing bodies

In its analysis, the State Audit Office of Hungary summarised and evaluated its experiences regarding the task performance of mid-level governing bodies. The analysis revealed that one of the guarantees of accountability, regular public fund utilisation and asset management at institutions of the central sub-system is the establishment of an appropriate management system and the responsible exercising of governance powers. By analysing the deficiencies and irregularities uncovered in the nearly 40 SAO reports assessed in the analysis, the State Audit Office of Hungary wishes to contribute to the regular operation of mid-level governing bodies, and thereby to the efficient, effective and economical performance of public duties.

Starting from 2012, a large number of public bodies and budgetary institutions were removed from the local government sub-system of the general government and added to the central sub-system, bringing the task performance of the mid-level governing bodies in charge of Government control to the foreground.

In the past few years, the SAO conducted audits at numerous hospitals, social and child protection institutions, city museums with county rights and water management directorates. The scope of the audits was also extended to the activities of mid-level governing bodies responsible for executing the tasks related to Government control, and to the setup and operation of the governance system required for the provision of public services.

TOTAL NUMBER OF BUDGETARY INSTITUTIONS GOVERNED BY MID-LEVEL GOVERNING BODIES



The audits revealed deficiencies in the exercise of the governing powers of mid-level governing bodies in several cases. The instances of inadequate governance detected by the audits posed a threat to the establishment of the conditions required for the regular and effective performance of the governed institutions. Moreover, in several cases, the audits performed by the governing bodies failed to fulfil their function of protecting the regular use

of public funds, and they failed to support the detection and management of irregularities, whereby they failed to ensure regular operation. The audits also revealed deficiencies with regard to the asset management activity of mid-level governing bodies, to the transfer and receipt of assets and to the accounting records.

Legal regulations applicable to the activity of mid-level governing bodies fundamentally established the conditions for regular task performance and responsible governance. The regulations defined the framework for the task performance of mid-level governing bodies; however, they did not provide for a clear and straightforward division of labour between the mid-level governing body and the governed institutions, nor did they ensure the development of internal regulations or the conclusion of agreements with detailed rules. Consequently, in many cases division of labour agreements and internal regulations did not or inadequately contained rules for responsibility taking or for the division of tasks, and it frequently happened that the performance of internal audit tasks or the financial management tasks taken over from the institutions governed did not comply with legal or internal regulations.

Conclusions

The experiences of the audits pointed out that the well-managed state cannot be conceived without the effective and efficient governance of public institutions. The duty of mid-level governing bodies with regard to the institutions governed is to stipulate, enforce and audit the requirements necessary for efficient financial management. Based on the financial management deficiencies detected at mid-level governing bodies, the performance of these tasks only exacerbated the risks existing at the institutions governed. The shortfalls of the activity of mid-level governing bodies may not only affect the operation and financial management of specific institutions but ultimately, the performance of public duties as well.

Utilisation of competitive knowledge – Operation of the Graduate Career Tracking System

In the spirit of cooperation between the SAIs of the European Union, the State Audit Office of Hungary conducted its audit entitled "Joint Audits for the Better Utilisation of Competitive Knowledge – Good Practices in Graduate Career Tracking" in the framework of an internationally coordinated audit. The SAO report on the audit was published by the SAO as early as 2016.

On the one hand, the related analysis published in 2017 utilised the data collected during the audit, which served to enrich the presentation on good practices. On the other hand, it processed the broader literature on the topic, which contributed to gaining an insight into the operation of the Graduate Career Tracking System (GCTS) based on the data of all higher education institutions. Significantly more data were collected and systematised through the means used by the analysis than were eventually included in the SAO report drawn up on the audit. Consequently, on the one hand the analysis confirmed, and on the other hand it refined and usefully supplemented the audit findings.

2.7. FINANCIAL AWARENESS

Through its audit activity, the State Audit Office of Hungary recognised that, in order to promote the welfare and financial security of the country, there is a need to mitigate the national economy risks arising from unsubstantiated financial decisions made by citizens. In the interest of expanding the knowledge of the population about finances, public finances and the sharing of public dues while also facilitating the development of attitudes and forms of behaviour related to finances, the SAO has made significant efforts in recent years to increase – as a priority area of its corporate social responsibility programme – the financial literacy of Hungarian citizens. This endeavour was also underlined in a 2014 National Assembly Resolution.

It is the vested interest of all economic participants to achieve that Hungarian citizens are well-informed about finances, make financial decisions with due caution, and exhibit responsible thinking with regard to their own lives and the community alike. Accordingly,



The study is accessible by clicking on the highlighted publication number, or can be downloaded from the SAO website (www.asz.hu).

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What are mid-level governing bodies?

With respect to the budgetary institution, a body exercising the governing powers transferred to it by law or by virtue of a government decree.



The study is accessible by clicking on the highlighted publication number, or can be downloaded from the SAO website (www.asz.hu).

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The study is accessible by clicking on the highlighted publication number, or can be downloaded from the SAO website (www.asz.hu).

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Relevant NA resolution

Through its Resolution No. 41/2014 (XI. 13.), the National Assembly expressed support for the SAO's role in increasing financial literacy.

numerous countries have defined the enhancement of the population's financial literacy as a strategic priority, especially in the period following the outbreak of the financial crisis. It is a significant step forward that this year saw the completion of Hungary's seven-year national strategy targeting the enhancement of financial literacy, the crafting of which was also supported by the State Audit Office of Hungary with its experiences.

The purpose of the Financial Awareness Programme is to assess and develop the financial literacy of Hungarian families and to increase financial awareness (also with respect to public finances) through programmes facilitating an improvement in financial literacy and supporting financial education, training programmes and simple and easy-to-understand news items and short films.

A new column entitled "Everyday Finances" was launched under the Financial Awareness menu option on the SAO's News Portal. The "Clearly About Public Finances" column also continued, which is intended to present concepts and activities related to financial literacy clearly and interactively – by involving the citizens – in 1-1.5-minute video clips. Moreover, the short films presented the approach and objectives of sustainable development and the SAO's current audit activity.

With a view to increasing the knowledge of Hungarian citizens about finance, public finances and the sharing of public dues, the State Audit Office of Hungary organised a three-day training programme under the title "Ambassador for Financial Literacy", in the context of which participating voluntary auditors learned about the methodology on improving the financial literacy of the population. 15 auditors received certificates upon the successful completion of the training course. The training programme is intended to promote the training of professionals who will be organically involved in improving the financial literacy of the adult population.

On Hungarian Values' Day, the State Audit Office of Hungary directed attention to the values of financial awareness and literacy. At the event, participants filled out almost 50 self-tests and were given an opportunity to talk about preparing a household budget.

The signing of the memorandum of understanding between the Hungarian Institute for Culture (NMI) and the State Audit Office of Hungary marks a significant milestone in the process of improving financial literacy. The cooperation between the two institutions provided the means for reaching out to the domestic adult population.

A cooperation master agreement was signed in 2011 with the Econventio Roundtable Non-profit Association, under which the Association undertook to assess the financial literacy of high-school students and to provide professional support for the publication of the studies in progress, which were published, for the seventh time, last year. Started in 2011, the surveys conducted in 2017 were extended to the financial skills of the adult population.



3. Auditing the auditors

In the interest of ensuring the regular, economic, efficient and effective management of national assets and the regular performance of reporting and data supply obligations, the Act on Public Finance identifies three areas in the audit system of public finances: the internal control system, Government audits and external audits. These three areas are the three lines of defence of public finances. The first line of defence is the internal control system of public finances and the internal audit system which covers the former; the second line of defence is represented by the supervision and monitoring tasks related to the government and local governments, and the third line comprises independent external auditing, such as the auditing tasks performed by the State Audit Office of Hungary.

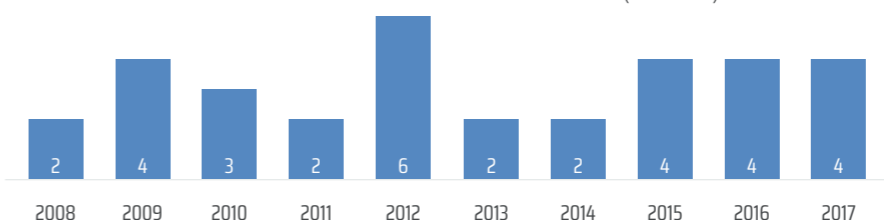
The SAO has a wide-ranging audit mandate: it is entitled to audit the financial management and operation of institutions which are themselves entitled to perform audit and supervisory tasks. By auditing such institutions, the SAO can achieve the greatest possible impact in its efforts to facilitate the regular, responsible and disciplined management of public funds: indeed, the results of the SAO's audits can be indirectly utilised even in the operation of the audited entities of the audit institutions by improving the regularity, efficiency and transparency of the auditors.

In 2017, in the context of auditing the auditors, the SAO conducted audits at some of the organisations constituting the second line of defence, such as the National Tax and Customs Administration, the National Bank of Hungary, the Hungarian Energy and Public Utility Regulatory Authority, the Hungarian State Treasury, the Hungarian Chamber of Pharmacists and the Hungarian Veterinary Chamber.

3.1. AUDITING THE INFORMATION SYSTEMS OF THE NATIONAL TAX AND CUSTOMS ADMINISTRATION (NTCA)

Given the scope of its duties, the National Tax and Customs Administration has been subject to the SAO's scrutiny year after year: the NTCA has been audited more than 30 times over the past 10 years due to the fact that it is responsible for more than 70 per cent of the budget revenues providing the coverage for public sector expenditures. The National Tax and Customs Administration is expected to deliver the budget revenues that cover public sector spending in a lawful and effective manner. It is therefore necessary for the organisation to perform its tasks with IT support that complies with the requirements set out by law. The authority's task performance and the realisation of tax and customs duty revenues fundamentally depend on the reliable functioning and operation of the supporting information technology systems, which, at the same time, are also responsible for processing the bulk of the national data assets. The current legislative environment that regulates the way in which the closed, comprehensive, continuous and risk-proportionate protection of the confidentiality, integrity and availability of the data processed in the electronic IT systems, as well as the integrity of the system components and availability thereof is ensured preventively contributes to mitigating the risk of security problems and reducing the number of security events; moreover, it provides for the systematic management thereof. The SAO audited the compliance of the electronic information systems with these legislative requirements at the National Tax and Customs Administration – as the organisation responsible for collecting the taxes and contributions comprising the majority of the revenues of the central budget – for the period between 1 January 2015 and 30 June 2016. In addition, we evaluated the activities related to the payment of VAT on e-commerce, the enforcement of the tax benefit on research-development and the collection of outstanding public dues collected as taxes.

NUMBER OF SAO AUDITS AT THE NATIONAL TAX AND CUSTOMS ADMINISTRATION PERFORMED IN THE PAST 10 YEARS (NUMBER)



The SAO's proposal:

The legislative coordination framework of public finance audits should be reinforced.



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Note:
the Figure also includes audits that were conducted outside of the independent audit programmes (e.g. audit on the final accounts)

Findings

The SAO's audit concluded that the National Tax and Customs Administration has established the management and control systems for the IT area and defined the operative objectives thereof; moreover, it has developed the organisational frameworks and regulations necessary for its operation, and executed the tasks related to resource management.

Recommendations

Following the audit, recommendations were issued for the President of the NTCA in relation to the internal control system of the organisation and compliance with administrative time limits.

3.2. AUDITING THE REGULARITY OF THE OPERATION OF THE NATIONAL BANK OF HUNGARY AND UTILISATION OF THE AUDIT ON THE REGULARITY OF ITS OPERATION IN 2014

Pursuant to the relevant legislative provisions, the State Audit Office of Hungary regularly audits the financial management of the National Bank of Hungary, as well as its activities that are not part of the MNB's core tasks under the MNB Act. Accordingly, the SAO assessed – based on the legislative provisions in effect in 2015 – the activities outside of the MNB's core tasks in year 2015, the compliance of the MNB's financial management and the MNB's account settlements in relation to the central budget. The scope of the audit covered the legal compliance of the MNB's activities aimed at supervising, auditing and regulating the financial intermediary system. The SAO also examined whether the MNB completed the tasks defined in the action plan drawn up in line with the findings and recommendations substantiating the recommendations in Report No. 16116 of the SAO, published in 2016. The audit did not cover the establishment and financial management of business associations or foundations set up in line with the MNB's tasks and primary objective.

Findings

The SAO found that the management, decision-making and audit systems of the MNB functioned in regulated fashion, overall, in 2015. The operation of the Supervisory Board complied with legal provisions and the rules of procedure, and the operation of the internal audit organisation was regular and regulated. The MNB's financial management and settlements with the central budget were regular and properly regulated. Its activities aimed at supervising, auditing and regulating the financial intermediary system complied with legal regulations overall. In performing its tasks as a regulatory authority, it complied with regulations but the audit uncovered some errors in resolution planning. The follow-up audit of the action plan drawn up in response to the findings and recommendations of the audit report published in 2016 found that, by completing the relevant task, the MNB contributed to ensuring the regularity of financial management.

3.3. AUDIT OF THE HUNGARIAN ENERGY AND PUBLIC UTILITY REGULATORY AUTHORITY

Through its energy efficiency strategy and the utilisation of renewable energy, the Hungarian Energy and Public Utility Regulatory Authority is one of the safeguards of sustainable development. The Authority is the main regulatory, supervisory and auditing body of Hungarian public utility providers; its activity affects all market participants. One of the activities of the Authority is auditing; consequently, by auditing the auditors – conducting an audit at the organisation – the SAO gains a view of not only the Authority but a broader segment of public finances. The activity of the MEKH may facilitate the reduction of energy consumption costs and the protection of environmental resources for future generations. Bearing in mind the interests of users, it continuously checks the invoicing, contract management and customer service activities of licensees.

Findings

The task performance of the governing body in relation to the Hungarian Energy and Public Utility Regulatory Authority and its legal predecessor was regular. In 2012, the setup and operation of the internal control system did not comply with legal provisions. The control

system operated in 2015 was regular and supported the enforcement of the integrity approach. The financial and asset management of the Authority was adequate. The Authority performed its public administration duties in a compliant manner.

Recommendations

Based on the findings of the audits, the SAO formulated a recommendation for the President of the Authority to eliminate the detected regulatory deficiency. The audited entity drew up an action plan in relation to the recommendation, which was acknowledged by the SAO.

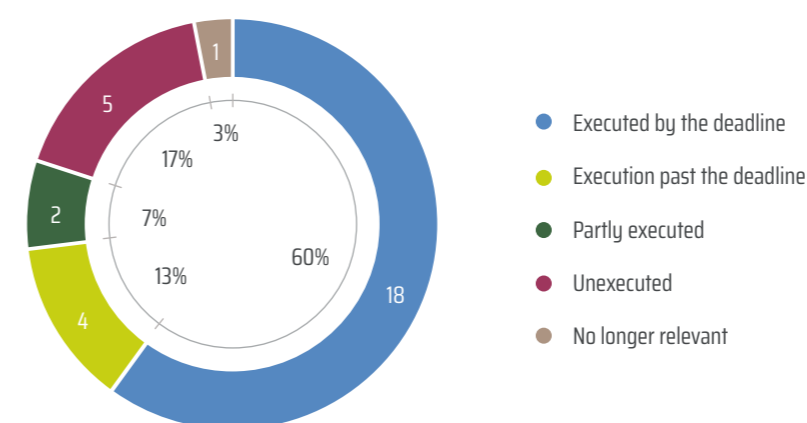
3.4. FOLLOW-UP AUDIT ON THE OPERATION AND FINANCIAL MANAGEMENT OF THE HUNGARIAN STATE TREASURY

The SAO pays particular attention to the increased utilisation of its audit findings. Regular follow-up audits provide feedback to both decision-makers and audited organisations, thereby contributing to the actual implementation of the required actions and the improvement of organised public finances. The purpose of the follow-up audit was to evaluate whether the Hungarian State Treasury and the Ministry for National Economy implemented their tasks undertaken in the action plans prepared in accordance with the recommendations of the report on the audit of the operation and financial management of the Hungarian State Treasury published in 2014.

Findings

The Figure below indicates the degree of implementation of the tasks contained in the action plan prepared in response to the recommendations made during the 2014 audit of the Hungarian State Treasury:

DISTRIBUTION OF THE ACTIONS TAKEN – TREASURY



With the tasks implemented, the Treasury has taken steps towards regular operation and financial management. However, due to the two tasks implemented only in part or not implemented at all, some of the deficiencies previously identified by the SAO still remain. The Ministry for National Economy, as the governing body, carried out the task set out in its action plan.

The President of the SAO notified the President of the Treasury in a warning letter of the necessity of taking further action in order to eliminate the unlawful practices revealed by the follow-up audit.



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17114



The summary prepared for the press (also containing the main findings) is available at the link marked "0".

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17129



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The summaries prepared for the press – including the main findings – are available at the links marked with "0".

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3.5. AUDIT OF THE HUNGARIAN CHAMBER OF PHARMACISTS AND THE HUNGARIAN VETERINARY CHAMBER

The Hungarian Chamber of Pharmacists plays a key role in defining the quality assurance and the training requirements of the pharmacist profession, and performs public tasks related to the membership and the activities of its members. It participates in the quality control of the healthcare services provided during the performance of the given healthcare activity, and in auditing compliance with the principles of mandatory further training and the implementation of the professional conditions for non-tertiary healthcare training, vocational training and further training. The Hungarian Veterinary Chamber is a veterinarian advocacy organisation, which, as part of its advocacy tasks related to its members, carries out the registration of veterinarians, veterinary institutions and service providers and veterinary assistants performing service activities. As part of its public administration duties, it participates – among other things – in the quality control of animal health services. The State Audit Office of Hungary audited the financial management of the Hungarian Chamber of Pharmacists and the Hungarian Veterinary Chamber for the period of 2013–2015.

Findings and conclusions

The financial management of the Hungarian Chamber of Pharmacists and the Hungarian Veterinary Chamber was not regular. Although central budget subsidies were used for the pre-specified purpose, the financial accounting of the subsidies was not regular. Disclosure obligations relating to data of public interest pertaining to financial management were not fulfilled, therefore, transparency was not ensured.

Recommendations

Based on the audit findings, in order to eliminate the deficiencies, the SAO formulated recommendations with obligations to take action, three of which were addressed to the President of the Hungarian Chamber of Pharmacists, and another seven to the head of the National Office of the Hungarian Chamber of Pharmacists.

The audit of the Hungarian Veterinary Chamber resulted in a total of 34 recommendations with obligations to take action, which were addressed to the Minister of Agriculture, the President of the National Organisation of the Hungarian Veterinary Chamber and the heads of 17 regional organisations. In response to the findings substantiating the recommendations, the addressees have drawn up action plans.

4. Audit of state-owned companies

The assets of the state play a pivotal role in the proper performance of public duties and the provision of public services. The preservation and enhancement of the value of state property as well as the regular management of the assets are key statutory tasks of public institutions, which is why this area is at the centre of the SAO's audits.

The SAO audits the exercise of proprietary rights over state property every year. In addition – in consideration of the heightened risks – it assigns key significance to auditing the preservation and management of assets transferred to state-owned companies operating outside the system of public finances. Moreover, in 2017 a separate report was prepared on the financial management of regional water utility companies.

4.1. AUDIT ON THE ASSET PRESERVATION AND FINANCIAL MANAGEMENT ACTIVITIES OF STATE-OWNED (OR PARTLY STATE-OWNED) BUSINESS ASSOCIATIONS

In 2017, the SAO continued the audit of state-owned business associations; it audited more than twice as many state-owned companies as in the previous year. The special significance

of the audits is justified by the fact that participations in state-owned companies form a part of the state's assets. The audits were also warranted in view of the fact that companies in majority state ownership play a key role in the public tasks performed, and their asset management, therefore, exerts an impact on the performance of public tasks. Based on the above, the transparent and accountable operation and financial management of state-owned companies is a fundamental requirement.

Conclusions

The audited entities play an important role in the protection and safeguarding of state property. The primary responsibility of the company is to ensure the transparent and accountable financial management of the assets. Therefore, in the interest of protecting and safeguarding state property, supporting the annual reports – which ensure the transparency of financial management – with proper inventory was deemed to be an area that needs to be strengthened.

In many cases, the audits found that the accounting rules and registries that ensure accountability and constitute the basis of the financial statements needed to be improved. In order to improve the transparency of operation, besides publishing the financial statements approved by the owner, the public should be informed continuously; in other words, the data prescribed by law must be disclosed.

Our audits revealed that both the companies' internal audit rules and the audit system targeting the companies need improvement. It is the position of the State Audit Office of Hungary that order creates value. Therefore, for the regular management of public property, both the audit system of the companies and the owners' audit must fulfil their role defined by law. The owner needs to set clear requirements for the leaders of the companies and monitor and evaluate the execution.

Since the result of the financial management of companies in the government sector may affect the general government debt-to-GDP ratio and the government deficit, this area was also put at the centre of the audits. The audits found that the P&L of the companies, on the whole, did not influence the general government debt-to-GDP ratio and the government deficit materially; therefore, the companies did not increase macroeconomic risks.

Recommendations

In its reports on state-owned business associations – other than the SAO report on the exercise of proprietary rights over state property –, the SAO issued a total of 231 recommendations addressed, for the most part, to the executive officers of the companies. Based on the findings of the reports, most frequently, the SAO's recommendations for the audited entities were aimed at ensuring responsible asset management and the transparency and accountability of operation. In these, the SAO recommended that the audited entities prepare inventories, put their accounting rules and accounts in order and disclose data of public interest. In addition, where it revealed irregularities threatening the responsible use of public funds and public property, the SAO also made recommendations for investigating responsibility. In response to the recommendations, the executive officers of most audited entities prepared action plans with the required content.

4.2. AUDIT ON THE FINANCIAL MANAGEMENT OF REGIONAL WATER UTILITY COMPANIES

It is a fundamental national interest to provide a safe drinking water and drainage service of adequate quality. Besides the key significance of societal aspects and the substantial changes in legislation from 2011, the audit was also justified by the fact that previous audits had revealed errors, deficiencies and irregularities in relation to the value preservation and enhancement activities of regional water utility service providers.

Key findings

Crafted in 2011, the Act on Water Public Utility Service fulfilled its role as intended by the legislator and served as a basis for the integration process of the water public utility sector. The

NUMBER OF
REPORTS ON AUDITED
STATE-OWNED
BUSINESS
ASSOCIATIONS

22

2015

25

2016

55

2017



The SAO reports on the audits of state-owned business associations are available by clicking on the titles of the reports under the Section referenced in the highlighted Annex number or can be downloaded from the SAO website (www.asz.hu).

ANNEX II,
SECTION 2



The SAO report containing the findings of the audit is accessible by clicking on the highlighted disclosure serial number, or can be downloaded from the SAO website (www.asz.hu).

17107



application of water utility service fees was in line with legal requirements and the regional water companies implemented the reduction of service charges starting from 2013. The integration contributed to building more efficient economies of scale and to the improvement of cost efficiency. As a result of the integration process, the number of consumers served by regional water companies increased in certain supply zones, which had a positive impact on unit costs.

All in all, the companies managed the assets entrusted to them for use or management in view for the performance of public functions in conformity with the regulations. The efficiency of the asset management of the companies has changed unfavourably, as the degree of the wear and tear of tangible assets, the value of trade receivables, as well as the recognised impairment losses increased. In the period under review, renovations and projects intended to increase the lifecycle of tangible assets were typically carried out according to the level of wear and tear until 2014. In 2015, however, the implemented projects did not ensure the preservation of asset values.

Recommendations

The SAO issued a total of nine recommendations for the executive officers of all five audited regional water companies. In the case of several companies, the SAO recommended that the companies define charges in accordance with legal requirements. In a number of cases, we suggested that the company initiate the amendment of the operating contracts concluded with the local government to ensure compliance with legal regulations. One of the companies was recommended to update its analytical records comprehensively in accordance with the provisions of the asset management contract in order to reflect the result of the asset valuation.

5. Central budget

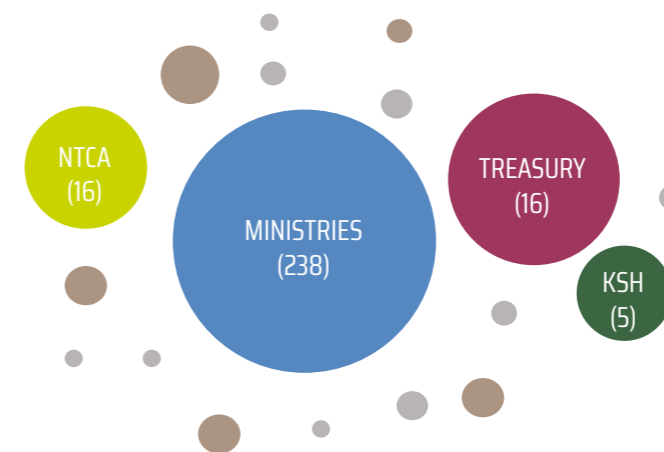
The central budget is the largest sub-system of the general government; it is responsible for financing the central sub-system. It underlines its crucial role that the central funding for the local government sub-system is also provided from the central budget. Essentially, therefore, the audit of the central budget gives insight into the operation of the general government as a whole.

Based on its audit methodology that ensures a wide coverage in audits on the execution of the budget and on the final accounts, the SAO can draw sound conclusions with respect to the general government as a whole.

Institutions of the central sub-system play a crucial role in the use of public funds. Their analyses may not only help improve the financial management of the audited entities, but we may get a comprehensive view of the deficiencies of the financial management of budgetary institutions inside the central sub-system, as well as their good practices. With its audits, recommendations and findings, the SAO may facilitate an improvement in the regulation of the financial and asset management of budgetary institutions.

The SAO places special emphasis on auditing central budgetary institutions with key socio-economic functions.

AUDIT FREQUENCIES OF THE MOST OFTEN AUDITED INSTITUTIONS (NUMBER OF AUDITS) IN THE PAST 5 YEARS



Some audits and analyses pertaining to the institutions of the central subsystem (e.g. NTCA) were described in detail under other focal areas ("Supporting the concept of the "well-managed state", "auditing the auditors").

5.1. AUDIT OF THE FINAL ACCOUNTS AND THE RELATED ANALYSES

The audit of the State Audit Office of Hungary ascertained that the execution of the 2016 budget was regular. The fulfilment of the statutory appropriations of the general government central sub-system in 2016, and changes in the deficit and public debt were in line with the legal requirements and EU criteria. The bill on the final accounts was substantiated and the data contained therein were reliable. The SAO examined the specificities of the execution of the budget and the relevant macroeconomic correlations in two analyses.

In line with its statutory obligation, the State Audit Office of Hungary has audited the bill on the execution of the 2016 budget of Hungary. The main objective of the final accounts audit is to enable the National Assembly to make as substantiated a decision on the adoption of



The summary prepared for the press (also containing the main findings) is available at the link marked "0".

17107-0



The SAO report containing the findings of the audit is accessible by clicking on the highlighted disclosure serial number, or can be downloaded from the SAO website (www.asz.hu).

17208



The news item related to the disclosure can be accessed by the link marked with letter "H".

17208-H



The study is accessible by clicking on the highlighted publication number, or can be downloaded from the SAO website (www.asz.hu).

T/424



The study is accessible by clicking on the highlighted publication number, or can be downloaded from the SAO website (www.asz.hu).

T/426



The SAO's proposal

In consideration of economic vulnerability factors, the need may arise to allocate additional reserves.

the Act on the Final Accounts as possible, and to enable the SAO to strengthen transparency and accountability in the management of public funds. By auditing the revenue and expenditure appropriations of the central budget, the social security funds and the extra-budgetary funds, the audit gives account of the reliability of the revenue and expenditure data of the central sub-system as a whole, and by doing so, it supports the transparency of public finances. In 2016, the revenues of the general government central sub-system amounted to HUF 18,229.9 billion and its expenditures to HUF 19,054.9 billion, and the cash-based deficit stood at HUF 825 billion.

Owing to the methodology applied for the purposes of the final accounts audit, the audit covered 100% of the revenues and expenditures of the central sub-system. To ensure a coverage suitable for the nature of financial audits – given the millions of items making up the revenues and expenditures of the central budget – statistical sampling was used for the audit. Accordingly, based on the audit of the selected items, the SAO drew its conclusion for the entire population.

Analysis – The impact of EU funds and the accumulation and use of residues on the budget structure

The analysis relates to the SAO's annual, statutorily prescribed audit on the execution of the budget (final accounts), and it was based on a permanent feature of fiscal management: the substantial amount of accumulated residues and their utilisation in the following year.

The accumulation of residues, to a certain extent, is an inherent feature of the management of the funds allocated in the annual budget as indeed, some programmes cannot be fully implemented during the year and their financing is carried over to the following year. The risk, however, is that the generation and use of residues is not uniform in individual years, which may jeopardise the fulfilment of the targeted budget balance in the year when the generation of residues is lower in amount as compared to the use of the residues generated in the previous years. While based on the data of the final accounts for 2012–2015, the analysis shows that the magnitude of the risk is in the range of a hundred billion, it also emphasises that the accumulation of residues that may be utilised in the following year should be reduced to the necessary minimum.

Analysis on the macroeconomic correlations of 2016 budgetary processes

For the fourth time, the State Audit Office of Hungary prepared an analysis on the correlations of the execution of the budget in order to provide feedback on the deeper interrelationships in macroeconomic processes. The analysis confirmed that 2016 was another year of growth and, thanks to favourable macroeconomic developments, the focus can now be shifted to improving competitiveness.

The government programmes launched in previous years aimed at economic growth and improving employment continued in 2016. In the interest of promoting economic growth, the reduction of employment-related taxes was a priority objective. In 2016, the employment rate rose to 72.1%, exceeding the average of EU Member States for the first time.

In nominal terms, government debt continued to grow in 2016 but it is important to point out that the growth dynamics of the nominal debt of the central budget decelerates year after year. Outstanding debt, however, could be covered by lowering expenditures. The analysis also showed that the share of forint-denominated instruments continued to increase in the debt structure in 2016, and this reduces the exposure of the Hungarian economy.

5.2. AUDIT OF THE FINANCIAL MANAGEMENT AND PROPERTY MANAGEMENT OF SPECIFIC INSTITUTIONS OF THE CENTRAL SUBSYSTEM

The activity of the institutions of the central subsystem and the quality of their financial management affects the management of public funds and public property in compliance with the principles of accountability and transparency and, through the public services provided by them, they also affect the quality of life of the population. With that in mind, the SAO conducts annual audits among the institutions of the various institution groups of the central sub-system to evaluate the setup and operation of their internal control systems, the regularity of their financial and asset management, and the enforcement of the integrity approach in the processes of financial management. In addition, the scope of the audits covered the evaluation of the setup of economy, efficiency and effectiveness objectives in the process of financial management and the accomplishment thereof.

DEFICIENCIES IN PERCENTAGE OF THE INSTITUTIONS SELECTED ON A RISK BASIS FOR AUDITS ON FINANCIAL AND ASSET MANAGEMENT

AT

38.9% OF THE AUDITED INSTITUTIONS THE EXERCISE OF FOUNDER'S RIGHTS, EMPLOYER'S RIGHTS, MANAGEMENT, SUPERVISORY AND AUDIT POWERS,

AT

88.9% OF THE AUDITED INSTITUTIONS THE INTERNAL CONTROL SYSTEM,

AT

61.1% OF THE AUDITED INSTITUTIONS FINANCIAL MANAGEMENT, AND

AT

88.9% OF THE AUDITED INSTITUTIONS ASSET MANAGEMENT WERE

NON-COMPLIANT

Most of the audited institutions participated in the SAO's integrity survey. However, additional action is required on the part of the institutions in order to set up the integrity control system properly, as they did not provide sufficient protection against risks.

Except for one, the audited institutions failed to formulate economy, efficiency and effectiveness requirements in the process of financial and asset management. In the lack of objectives, the fulfilment of these requirements could not be evaluated and the performance part of the audit could not be carried out. In the case of one hospital, backtesting showed that the target values were not achieved every year.

Conclusions

The audits underpinned that there is an interrelationship between the task performance of the governing body and the quality of financial management and hence, the compliance of the institution's internal control system as set up by the institution leader. At institutions where the setup of the internal control system was not regular, the internal management system put in place by the head of the institution did not ensure the conditions for the regular, transparent and accountable use of public funds and hence, for financial and asset management.

Recommendations

The SAO formulated 255 recommendations in relation to the findings of the audits conducted at institutions of the central sub-system. Of the recommendations, 11 were addressed to ministries acting as governing bodies, 15 to organisations acting as mid-level governing bodies, 38 to institution leaders performing business organisation tasks and 191 to the leaders of the audited institutions. The heads of the audited entities complied with their obligation to draw up an action plan.



The SAO reports on the institutions of the central subsystem are available by clicking on the names of the institutions under the Section referenced in the highlighted Annex number or can be downloaded from the SAO website (www.asz.hu).

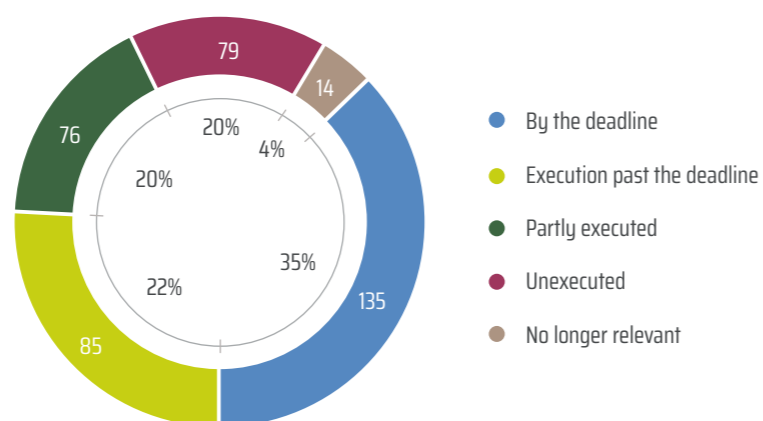
ANNEX II,
SECTION 3

Follow-up audit of higher education institutions

In 2016, the SAO commenced the follow-up audit of higher education institutions. In 2016, the SAO conducted follow-up audits at 4 higher education institutions and following the audits, it audited the execution of the action plans of 17 higher education institutions in 2017 and 7 higher education institutions in the first quarter of 2018.

The follow-up audits underpinned the risks inherent in the operation of the audited entities: unexecuted or partially executed measures signalled risks to responsible managerial conduct and to the regularity of operation; therefore, in order to address and mitigate the risks concerned, the President of the SAO sent warning letters to the chancellors of 23 higher education institutions in relation to the completed follow-up audits. Except for one, all of the chancellors informed the President of the SAO of the actions that they were planning to take.

DISTRIBUTION OF THE EXECUTION OF THE TASKS UNDERTAKEN BY HIGHER EDUCATION INSTITUTIONS IN THE ACTION PLANS BY EVALUATION CATEGORY (NUMBER, %)



Except for six tasks, in its capacity as operator the Ministry of Human Capacities has executed 37 tasks defined in the action plans by the deadline.

6. Local government sector

Local governments form a separate sub-system within the general government. Their potential financial deficits and debts exert an impact on the deficit and debt of the government sector. Moreover, the property of local governments is part of the national assets. This is why it is justified for the SAO to audit the financial management of local governments on a regular basis.

In the context of its local government audits, the SAO focuses on areas where the audits are most needed based on the risks identified. In addition to the now traditional audits on the internal control system and financial and asset management of local governments, in 2017 the SAO continued its audits on the debt settlement of local governments and museums commenced in 2015 and 2016, respectively. The audits conducted on the basis of the SAO's new, risk-based monitoring system represent a new approach, which is intended to improve the efficiency of the audits. The SAO extended the scope of its audits at local government-owned companies to additional organisations.

6.1. SUMMARY EVALUATION OF THE LOCAL GOVERNMENT AREA

Over the short term, financial and asset management risks are fairly low in the local government area; however, the area continues to need external control in view of the deficiencies of the internal control system, the challenges posed by the need to ensure long-term financial balance, and the medium risks associated with local government-owned companies.

Based on the risk analysis, the setup and operation of the internal control system of the local governments selected for the audit was typically non-compliant in the audit periods. Problems arose with respect to the setup and operation of a legally compliant organisational framework; consequently, the regularity of operation and financial management was not ensured at numerous audited local governments. The detected regulatory and accounting deficiencies posed risks to the regularity of the use of public funds and to the responsible management of national assets. Typically, the coverage of the established integrity controls did not correspond to the arising risk levels.

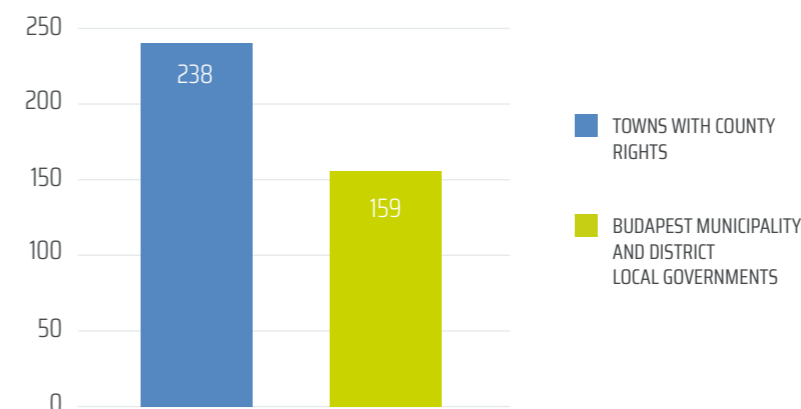
Despite this fact, based on the risk-based local government monitoring system operated by the SAO, financial management – including the financing structure of public duties – were rated low-risk throughout 2016 within the local government sub-system as a whole. As regards indebtedness, the risk monitoring system pointed to medium risk levels in terms of indebtedness toward suppliers and financial institutions and in the area of guarantees and sureties; however, the level of indebtedness observed in the period of debt consolidation proved to be low-risk. Although asset management received a medium risk rating – primarily because of the medium risk level assigned to companies majority-owned by local governments – the change in assets and internal indebtedness were associated with low risk. Risks to public finances arising from the financial management of local governments and the risks surrounding the protection and safeguarding national assets were also classified into the low-risk category, based on the evaluation of the local government sector as a whole.

All this means that, although the sustainability of the financial management of local governments and the performance of statutorily prescribed tasks do not require intervention over the short term, the long-term maintenance of financial balance within the framework of the new task-financing system introduced from 2013 is still an issue to be solved. While debt consolidation had a positive impact on the financial balance of local governments, it did not eliminate the triggers of the problems, and unless they are addressed, outstanding debt may re-accumulate.

In consideration of all this, it is indispensable to control the regularity of local governments and to monitor their financial standing and asset portfolios closely, while also assigning a key role to exploring the factors that negatively affect the financial balance.

The most frequently audited local governments include local governments of towns with county rank, the Municipality of Budapest and Budapest district governments, in particular those endowed with a significant volume of national assets and budgetary funds. According to the 2016 budget statements, the total value of the assets involved in the audits of local governments of towns with county rank, Budapest district governments and the Municipality of Budapest amount to HUF 4,278.3 billion and the budget expenditures amount to HUF 685.8 billion.

AUDITS OF LOCAL GOVERNMENTS OF TOWNS WITH COUNTY RIGHTS, BUDAPEST DISTRICT GOVERNMENTS AND THE MUNICIPALITY OF BUDAPEST (NUMBER) IN 2013–2017



The SAO reports on the local governments audited in 2017 are available by clicking on the titles of the reports under the Section referenced in the highlighted Annex number or can be downloaded from the SAO website (www.asz.hu).

ANNEX II, SECTION 4



The SAO's proposal:

Based on the risks identified by the local government risk monitoring system created by the SAO, the SAO raises the possibility of tightening the local government financing constraint:

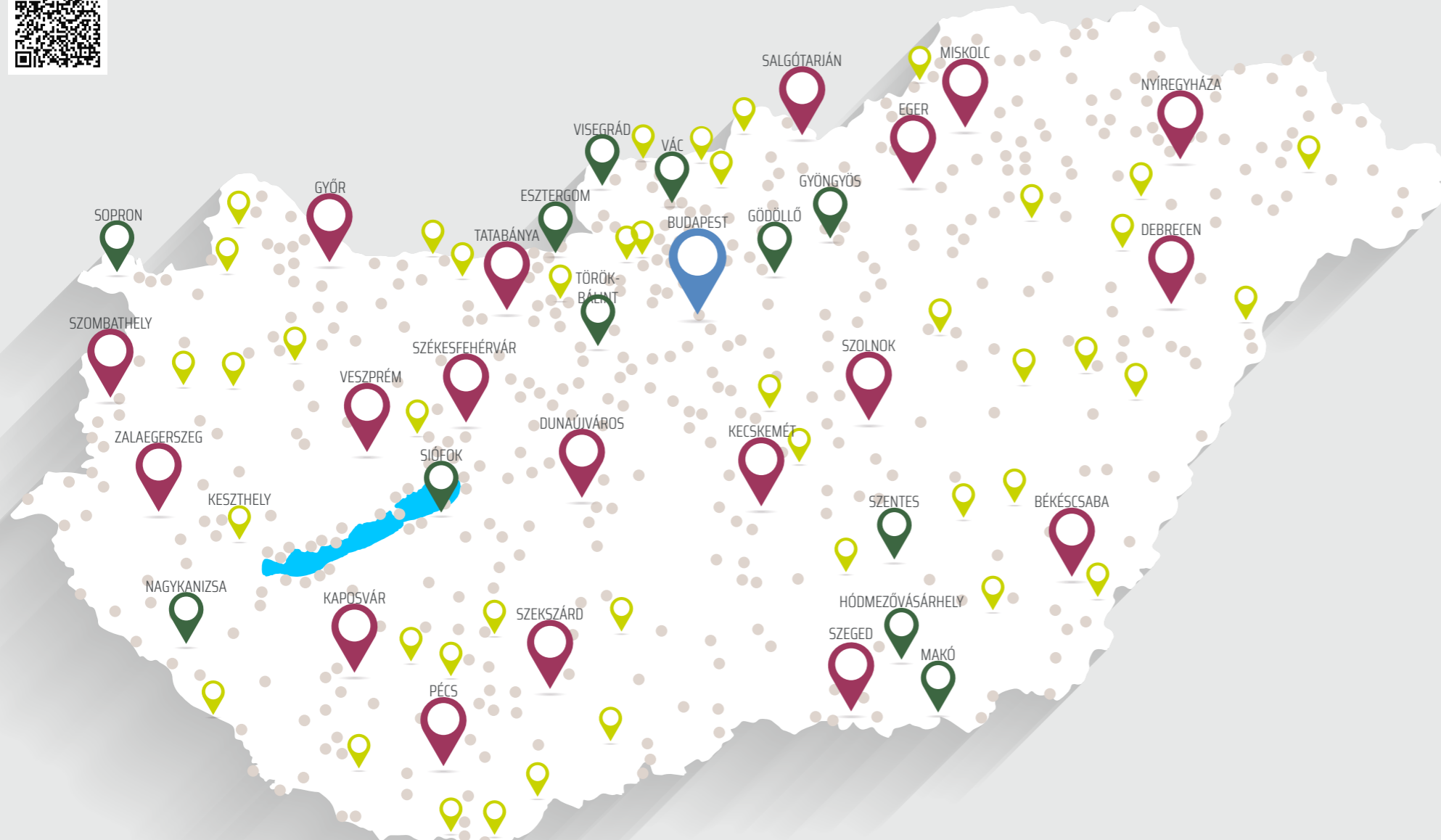
1. non-mandatory task performance and projects can only be undertaken up to a specific percentage of the local government's annual financing
2. the local government would have to issue a statement within its own scope of responsibility on ensuring the financial coverage of non-mandatory task performance and projects
3. to cover the costs, local taxes may be raised up to the amount of the expenses



In the electronic version, clicking on the link will display changes across the years



Audited entities by settlement, 2013–2017



NUMBER OF AUDITED ENTITIES (ENTITIES AUDITED MULTIPLE TIMES HAVE HIGHER NUMBERS)

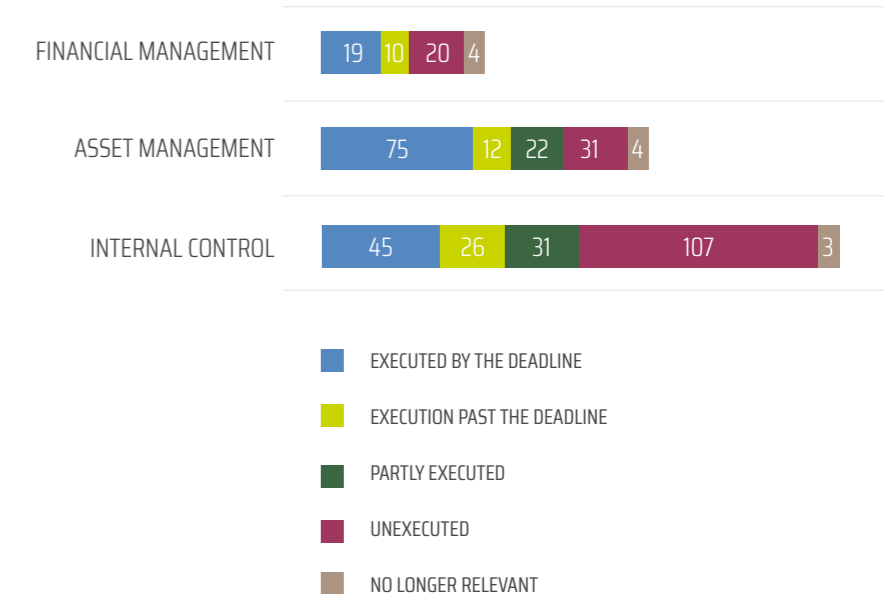
6.2. UTILISATION OF PREVIOUS LOCAL GOVERNMENT AUDITS

In 2017, the SAO conducted follow-up audits in relation to previous audits on the internal control systems and the financial and asset management of local governments. The follow-up audits conducted in 2017 targeted the internal control system in 8 cases, asset management in 26 cases and financial management in 5 cases.

Findings

The audits affected by the follow-up audits were carried out in 2013–2014. The experiences gained during the follow-up audits of local governments suggest that most of the recommendations issued by the SAO were utilised in the area of asset management and financial management; however, a relatively large number of deficiencies persist in the area of internal controls, which poses a risk to their financial management.

DISTRIBUTION OF THE EXECUTION OF THE TASKS UNDERTAKEN BY LOCAL GOVERNMENTS IN THE ACTION PLANS BY EVALUATION CATEGORY, 2017 (NUMBER)



The unexecuted tasks identified by the follow-up audits of the internal control system primarily affected the setup and operation of the risk management system, the definition of control activities, the regular setup and operation of key controls in financial processes, the setup and regular operation of the communication system and internal audit, and compliance with the electronic disclosure obligation.

In addition to the follow-up audits, in 2017 the SAO also audited the internal control system at new local governments. The findings of these audits are presented in Chapter 1.1.

6.3. AUDIT ON THE DEBT SETTLEMENT OF LOCAL GOVERNMENTS

In 2017, seven local governments were subject to audits on debt settlement. In the context of the audits, the SAO assessed the regularity of the commencement and execution of the debt settlement procedure and the legal compliance of the local governments' financial management during the debt settlement procedure i.e. whether the participants of the procedures, in particular, the financial trustee, complied with legal regulations during the debt settlement process.



The SAO's proposal:

The objectives of the Act on the Debt Settlement Procedure should be reconsidered: with a view to ensuring its compliance with the Fundamental Law and protecting public funds, the liability of the state should be limited up to its contribution to the local government's indebtedness.



The SAO's proposal:

Despite the debt consolidation, local government debt may re-accumulate; therefore, it may be justified to eliminate the triggers of the local government debt problem that negatively impacts the foundations of the state's operation and, to this end, to strengthen public sector management in this area.

Findings and conclusions

The debt settlement procedures did not achieve their objectives, as the local governments failed to restore balance in their financial management. In addition, the efficient legal protection of creditors was not achieved either, although creditors' claims were satisfied from the central budget. The local governments did not draw up an asset inventory or an annual report by the day preceding the commencement of the debt settlement, and they did not have accurate information on the assets to be included in the debt settlement procedure. Although the debt settlement procedure concluded with an arrangement at the seven audited local governments, only three local governments fulfilled their payment obligations in full in accordance with the arrangement. The revenue increasing and expenditure reducing measures undertaken by the local governments in the reorganisation programme were only partially implemented, which can be partly attributed to the fact that the Government had assumed the outstanding debt of the local governments; therefore, the actions defined in the reorganisation programme did not need to be executed. The actions taken by local governments in the debt settlement procedure did not contribute to the long-term, carefully planned and responsible financial management of the local governments.

Recommendations

The SAO formulated a total of 22 recommendations with obligations to take action for the seven local governments, primarily in relation to the regularity of the setup and operation of their internal control systems and the preparation of liquidity plans.

6.4. AUDIT OF LOCAL GOVERNMENTS BASED ON FINANCIAL MONITORING

The statutory duty of the SAO is to audit the financial management of local governments, and its strategic objective is to assess the financial and economic position of local governments and to explore risks. Over the years, the SAO has conducted hundreds of audits at local governments which, among other things, contributed to gaining an in-depth insight into the triggers of the increase in local government indebtedness that ballooned to critical levels by 2010, and to factually identifying the risks posed to the operation of the sub-system as a whole. Within the framework of the new task-financing system introduced in the local government sub-sector from 2013, special efforts should be still made to establish financial balance and to maintain it over the long term. It is, therefore, extremely important to identify risks relating to the balanced finances of local governments, and to present the relevant processes and trends. To that end, the SAO has developed a risk monitoring system for local governments. By way of the audits assisted by the risk monitoring system, the SAO obtains sufficient and reasonable assurance on whether the local governments are capable of carrying out their statutory duties, whether their financial management can be maintained as is, and whether these factors are, on the whole, surrounded by risks. In the framework of the financial monitoring of local governments, the first pilot audit was performed at the Local Government of Rétság in Nógrád County, for the 2014–2015 period.

Findings

The financing structure of the Local Government's task performance and capital formations ensured the sustainability of the Local Government's financial management in both years. Based on its liabilities, as in 2014, it was not indebted in 2015 either; such a risk, therefore, did not threaten the sustainability of the Local Government's financial management and the performance of its statutory duties. As regards the Local Government's asset management, the preservation of asset value and the replacement of assets were ensured. The financial management of business associations majority-owned by the local government did not pose a risk to the Local Government's financial management in 2015. All in all, the Local Government of Rétság complied with the (propriety) audit criteria defined by the SAO: based on the risk sources identified, its financial management, outstanding debt and asset management did not show risks. Therefore, the task performance of the Local Government and the continuation of its existing financial management did not signal risks, on the whole.

6.5. AUDIT OF DISTRIBUTION OF FUNDS IN BUDAPEST

The purpose of the audit was to assess the regularity of the allocation of resources between the Municipality of Budapest and the Budapest district local governments as prescribed by the resource allocation decree of 2016, as well as the regularity of the calculation and accounting of the expenditures related to local taxation.

Findings and conclusions

The management system established for resource allocation by the Chief Notary ensured the compliant, transparent and accountable management of public funds. The Decree on the distribution of funds in 2016 was approved by the General Assembly of the Municipality of Budapest with substantiated budget figures. The SAO did not uncover deviations in the financial settlement of shared revenues and expenditures allocated to the Municipality of Budapest and the Districts. No correction of the 2017 Resource Allocation is needed.

Recommendations

The SAO did not formulate any recommendations with obligations to take action.

6.6. AUDIT AND ANALYSIS OF LOCAL GOVERNMENT-OWNED COMPANIES

A key objective of the State Audit Office of Hungary is to ensure, by uncovering the financial risks inherent in the financial management of local governments, and by auditing the state subsidies provided outside the state budget and the free grants of assets and the task performance systems operating outside the state budget, that public funds are used by the organisations transparently and in a regulated manner. In Hungary, institution-oriented task performance is typical, but extra-budgetary task performance is increasingly gaining ground. Local government-owned companies are important players in this process. As a consequence of the local government's autonomy in restructuring, business associations received a significant role in the performance of both mandatory and voluntary tasks. Therefore, similar to the previous year, in 2017 the SAO continued to conduct audits among the companies majority-owned by local governments in the context of thematic audits, focusing on their financial management in the periods of 2011–2014 and 2012–2015. In 2017, the SAO published two studies analysing the financial management, operational and asset management risks of business associations in majority local government ownership and the owner local governments.

Findings and conclusions

The audited local government-owned business associations provided services in the areas of municipal operations and management, real estate development, cultural, social and health-care services. The exercise of proprietary rights over the companies owned by the local governments was regular, overall, at 90% of the local governments. At the same time, the exercisers of proprietary rights had not defined accountable requirements, evaluation criteria or indicators for the performance of public duties. In the absence of the above, the measurability of public task performance was not ensured. Moreover, the occasional absence of ownership control contributed to increasing the operational risks of the companies concerned. Our audit findings indicate that at local government-owned companies there is a need to improve the protection of national assets and to strengthen ownership control for the responsible management of national assets. It is warranted to define a series of requirements and criteria that ensure the measurability and rating of services. And, in order to meet the objectives expected of the service providers, clear requirements should be set for the management of the companies.

Recommendations

Based on the audit findings, the SAO formulated a total of 340 recommendations in the reports in order to rectify the regulatory deficiencies detected and eliminate the irregular practice. 271 recommendations were addressed to the executive officers of the business associations, and 69 to the exercisers of proprietary rights. In response to the recommendations, the audited organisations submitted their action plans or the preparation of the action plans is in progress.

AUDITED BUSINESS ASSOCIATIONS OWNED BY LOCAL GOVERNMENTS

129 reports 2011-2016

51 reports 2017



The SAO's proposal:

In the case of local government-owned business associations, an indicator system should be developed to measure public task performance and the provision of public services.

DEFICIENCIES UNCOVERED BY THE RISK-BASED AUDITS OF LOCAL GOVERNMENT-OWNED COMPANIES

at 82% the regularity of accounting

at 44% inventory taking

at 48% cost accounting rules were non-compliant of the audited entities



The SAO reports on the audits of local government-owned business associations are available by clicking on the titles of the reports under the Section referenced in the highlighted Annex number or can be downloaded from the SAO website (www.asz.hu).

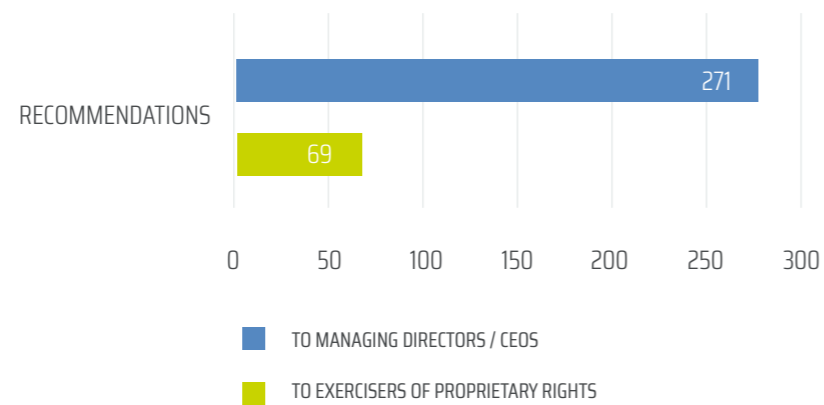
ANNEX II,
SECTION 4



The study is accessible by clicking on the highlighted publication number, or can be downloaded from the SAO website (www.asz.hu).

T/415

DISTRIBUTION OF RECOMMENDATIONS BY ADDRESSEE, 2017



Analyses

In January 2017, a study was published exploring the possibilities of addressing the deficiencies identified during the audit of waste management companies in majority local government ownership. These companies are especially vulnerable from the perspective of economies of scale.

The standard of the activities performed by waste management companies fundamentally affects the quality of life for the population consuming the service. Ensuring uniform public service price levels is a key factor in fostering the equal opportunities of citizens, as unreasonably high fees jeopardise the livelihood of families. The expedient, effective and economical functioning of companies is therefore one of the most important social goals, and one that the SAO also intended to contribute to with its own tools. To this end, the State Audit Office of Hungary audited a total of 29 companies between 2014 and 2016.

SAO has been regularly auditing the financial management and the exercising of ownership rights at the above companies since 2014. Based on its audit findings, the State Audit Office of Hungary evaluated typical non-compliances and the resulting risks at the vulnerable companies. The evaluation found that the compliance of financial management has declined in direct proportion with the size of companies. The compliance problems contributed to the fact that for ten out of the eleven vulnerable companies, balance sheet earnings in 2014 were negative. The majority of the audited companies proved unable to ensure the accountability of public services and the appropriate protection of public assets. The activity data presented in the reports did not provide the owners with a full and reliable view of the company's equity and finances, nor did they provide a sufficient basis for decision-making. The majority of the owner local governments were unable to regularly control how the companies performed their tasks, which contributed to an increase in the operational risks inherent in the companies' activities. The vast majority of the companies did not establish a system of criteria capable of measuring their public service activities, and were therefore unable to guarantee the quantifiability of operations and tasks performed in the public interest.

A significant number of companies violated regulations on the protection of personal data and on access to public information; thus, they also failed to guarantee the protection of basic rights relating to the freedom of information. In every report, the State Audit Office of Hungary called attention to the obligation to segregate the revenues and expenditures related to public services and to the importance of sound cost accounting. To remedy the problems observed in the workout area, in 2016 the National Waste Management Coordination and Asset Management Ltd. was established.

The "Analysis on the experiences of the operation of local government-owned companies" published in May 2017 was based on the experiences of the audits conducted between 2011 and 2014 at a total of 106 companies majority-owned by 178 local governments.

The analysis separated local governments into four groups, based on the number of citizens, and reviewed the audit experiences, findings and contexts in four risk areas, summed up in a total of 19 aspects and systematised based on the audit reports over the municipal services of the local governments and the operation of enterprises in their majority ownership.

The hypothesis of the analysis was that operation of the enterprises owned by the local governments and the attendant risks are determined by the operation of the local governments, and the risks derived thereof. Thus, the risks assumed by the local governments directly affect the operation of their enterprises. This assumption has been confirmed by the results of the analysis.

The study demonstrated that the increase in the risks associated with the operation of local governments and their companies and ultimately, the risks to public service provision, was inversely proportional to the decline in the number of the population.

The financial stability (liquidity and indebtedness) of local governments showed definite improvements in 2013 over almost all groups, meaning that the ratio of local governments evaluated as high-risk also significantly decreased. This already included the positive effects of state measures aiming to leverage local government debt.

However, the risks concerning the financial stability of financial entities have been increasing. This means that in the field of "good governance", local governments continue to require improvement.

The analysis also showed that the SAO helps local governments and their enterprises the most by focusing on realistic risks, both in its findings and its suggestions. The assessed period showed an increase in the number of suggestions per report. The warning letters signed by the SAO president addressing local governments as lawful proprietors also proved to be useful as, according to the analysis, they contributed to the extension of the tools available for exercising proprietary rights by the local governments, as well as to a more quantifiable and efficient financial management, and thereby to a transparent, accountable utilisation of public funds.

According to the conclusions of the analysis, the risks to financial management and operational risks at the companies can be significantly reduced by strengthening the setup and operation of internal controls. It should be considered a good direction that some of the local government-owned companies already belong to the government sector and as such, they are required to develop a system for monitoring the implementation of the objectives.

In addition, defining and consistently enforcing the criteria to be fulfilled in relation to the companies' management may also significantly support more effective financial management in the spirit of responsible corporate governance on the part of local governments as owners.

6.7. AUDIT AND ANALYSIS OF TOWN MUSEUMS WITH COUNTY RIGHTS

Pursuant to the Fundamental Law of Hungary, cultural assets form the common heritage of the nation; it shall be the obligation of the State and every citizen to protect and maintain them, and to preserve them for future generations. Town museums with county rights are of key significance from a cultural perspective in terms of their geographical locations and their tasks and in terms of the number of visits. Their financial and property management determines the performance of public tasks, the protection and conservation of goods of cultural heritage and the ensuring of accessibility to the public.



The study is accessible by clicking on the highlighted publication number, or can be downloaded from the SAO website (www.asz.hu).

T/419

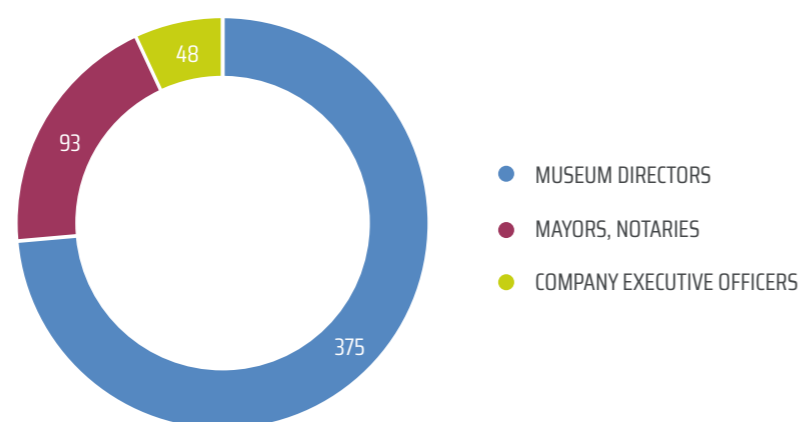
In the context of its audit of town museums with county rights, the SAO published its audit reports on 19 museums at the end of 2016 and at the beginning of 2017. Using the experiences of the audits, the analysis summarises and evaluates the findings of the audits and the conclusions drawn from them; in addition, it presents the results of the audits along with their societal utilisation.

The analysis concluded that at 80% of the museums, the management system did not ensure compliance with the rules, the detection and management of irregularities and transparent, accountable and verifiable public spending. Internal control was not set up and operated adequately; consequently, it did not fulfil its function of protecting public funds and supporting the management. In some cases, the setup and operation of the integrity control system was not adequate either; therefore, it provided insufficient protection against the institutions' corruption risks.

The deficiencies and irregularities unveiled in management were reconfirmed by the fact that the financial and asset management of the museums was irregular. The irregular financial and asset management of the county museums, in turn, failed to support the protection of cultural assets. None of the museums complied in full with the requirements pertaining to the registration and lease of cultural assets either; consequently, the protection of property and the safeguarding of asset value were not ensured.

The analysis also covered the organisational changes and restructurings affecting the museums on several occasions between 2011 and 2014, and the audits by the governing body and the operator as the second line of defence.

RECOMMENDATIONS OF THE AUDITS BY ADDRESSEE (NUMBER)



7. Audits on the utilisation of budgetary subsidies

Transferring budget funds to areas outside of public finances entails increased risks in regard to the use of public funds. Pursuant to the SAO Act, the SAO is entitled to audit the utilisation of subsidies provided from public funds at the beneficiary organisations. Where a beneficiary organisation receives subsidies from public funds other than the transfer of a specified portion of the personal income tax on the taxpayer's instruction, or receives free allocation of assets, the financial management of such beneficiary organisation may be audited in its entirety.

7.1. AUDIT AND ANALYSIS OF NON-GOVERNMENTAL HUMAN SERVICE PROVIDERS

In 2017, the SAO published ten reports in connection to the thematic audit of the operators of non-governmental institutions performing public education and social functions. The compliance audits covered the period of 2012–2015. During the audits, at the institution operators the SAO evaluated the regularity of the framework established for public task performance and the utilisation of subsidies from the central budget. It audited the enforcement of transparency during the performance of public tasks and ascertained whether the institution operators took action in response to the findings of external audits. The prevailing budget acts provided significant financial support annually to the operators of non-governmental institutions performing public education and social functions for the purpose of the performance of their public duties. The analysis published in January 2018 within the framework of its advisory activity summarises, based on the SAO's audit experiences, the deficiencies and irregularities detected during the audit of non-governmental human service providers, identifies good practices, and describes the organisational, regulatory and financing framework of the operation of the operators of non-governmental human service providers.

Findings and conclusions

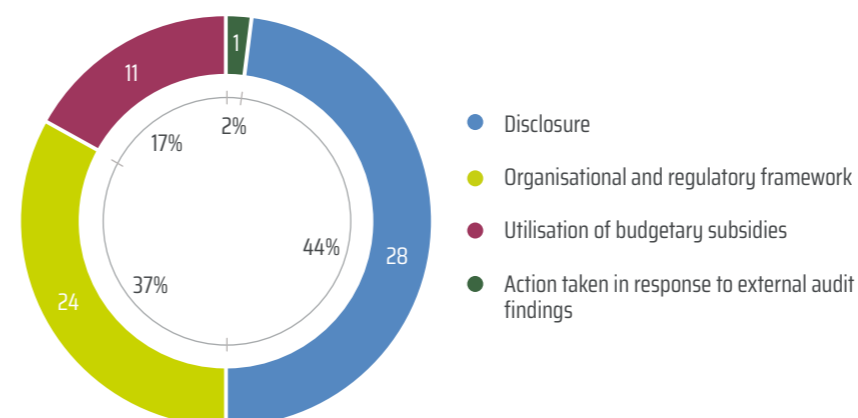
It is also a fundamental requirement for organisations outside of the general government to use the public funds provided to them for the performance of public tasks transparently. Transparency is ensured by the publicity of the institution operators' assessments of the professional work performed by the institutions, and by the publicity of operational data of public interest as well as the disclosure of financial statements. Owing to the large number of deficiencies found in these two areas, the transparency requirement was not enforced; the stakeholders did not receive sufficient information about the operation and financial management of the operators of institutions performing public tasks and about the professional task performance of the institutions.

A significant part of the institution operators did not ensure the conditions for regular financial management as, in establishing the framework of internal regulations – largely due to the deficiencies detected in relation to the regularity of accounting – the regulations did not support compliant task performance.

Recommendations

In order to eliminate the deficiencies, based on the audit findings the SAO formulated a total of 64 recommendations with obligations to take action for the ten institution operators. The audited entities prepared action plans in response to the recommendations.

DISTRIBUTION OF THE AREAS AFFECTED BY THE RECOMMENDATIONS ADDRESSED TO NON-GOVERNMENTAL HUMAN SERVICE PROVIDERS (NUMBER, %)



The SAO reports on the audits of non-governmental human service providers are available by clicking on the titles of the reports under the Section referenced in the highlighted Annex number or can be downloaded from the SAO website (www.asz.hu).

ANNEX II,
SECTION 5



The SAO reports on town museums with county rights are available by clicking on the titles of the reports under the Section referenced in the highlighted Annex number or can be downloaded from the SAO website (www.asz.hu).

ANNEX II,
SECTION 4



The study is accessible by clicking on the highlighted publication number, or can be downloaded from the SAO website (www.asz.hu).

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Analysis

The analysis considered, grouped and synthesised the findings of the SAO reports pertaining to significant areas. Based on the frequency, prevalence and materiality of the errors and irregularities, it identified the particularly risky areas and also pointed out the good practices applied by the audited entities. The analysis is based on two SAO reports published in 2016, and ten reports published in 2017.

The analysis underpinned the important role of auditing in ensuring regular and error-free operation, as indeed, the regularity of operation was best ensured in areas where the practice of external audits, as well as professional, legality and administrative control had been, in some form, established. At the same time, the existence of external audit, by itself, does not guarantee regular operation.

7.2. AUDIT OF PARTIES AND PUBLIC FOUNDATIONS

The State Audit Office of Hungary started auditing foundations and public foundations in 2016, thus contributing to the elimination of previously unaudited 'grey areas' of the utilisation of public funds. In 2017, the SAO published reports on the audit of two foundations (MÁV Symphony Orchestra Foundation and Budapest Festival Orchestra Foundation). By auditing the state subsidies provided outside state budget and free grants of assets, the SAO contributes to public funds being used by non-governmental organisations in a transparent way. Pursuant to its statutory mandate, the SAO is entitled to audit foundations and public foundations that have received subsidies or funds granted free of charge for specific purposes from public finances. In these cases, the financial management activity of the organisations concerned may be audited as a whole. During its audits, the SAO evaluates whether the management of the foundation complied with the relevant legal regulations; and whether the registration and the accounting of the support received from the central budget and the assets provided to the foundation were regular. The audit also covers the fulfilment of the obligation of the foundation to draw up financial statements and reports, as well as its registration, audit and monitoring activities serving its operation and financial management.

Findings

The audit found that the internal regulation of the financial management of MÁV Symphony Orchestra Foundation between 2013 and 2015 did not comply with legal regulations. The annual budget plans of the Foundation were not prepared in the breakdown and the manner required by legal regulations. Its book-keeping did not comply with the legal regulations, and its simplified annual reports were not supported by inventory. The Supervisory Board of the Foundation did not fulfil its role, as the performance of audit tasks by the Supervisory Board related to financial management did not comply either with legal requirements or the articles of incorporation. For all these reasons, the financial management of the Foundation did not ensure the accountability and transparency of funds from public finances.



The SAO's audit for the period of 2013–2015 found that the Budapest Festival Orchestra Foundation had established the organisational framework for its financial operations. It recorded and accounted for the received subsidies in a regular manner. The accounting of expenditures, however, did not meet legal requirements. The Foundation did not ensure the accountability of the utilisation of subsidies from the central budget. The foundation performed investment activities against the founders' will in 2014 and 2015. The supervisory body of the foundation audited the financial management and operation of the foundation, but it did not alert the Board of Trustees about the investment activity contrary to the deed of foundation and the irregular value determination of certain lines of the report.

Recommendations

Upon the conclusion of the audit of MÁV Symphony Orchestra Foundation, the SAO formulated six recommendations for the Chairman of the Board of Trustees, suggesting – among other things – that the Foundation draw up the regulations and policies required by law, keep separate records of core and business activities, and compile an inventory. In its report on the audit of Budapest Festival Orchestra Foundation, the SAO formulated five recommendations for the Chairman of the Board of Trustees of the Foundation, aimed at – among other things – the formulation of the statutorily prescribed rules of procedure, budgetary planning, book-keeping and the compilation of reports.

7.3. THE AUDIT OF PARTIES AND PARTY FOUNDATIONS

Pursuant to its legal mandate, every two years the SAO audits the financial management of parties and party foundations receiving regular state subsidy from the central budget. The SAO supports the National Assembly in reforming the legislative environment by presenting the deficiencies detected in its reports.

Compared to other organisations of society, parties have a special relation to public power, since it is the explicit objective and duty of parties to be involved in executive power through their representatives; pursuant to the Fundamental Law of Hungary, political parties shall indirectly participate in the formation and expression of the will of the people.

For the purity of Hungarian political life, the mitigation of corruption risks and the utilisation of the public funds and public property available for the parties, it is a fundamental requirement to ensure that the financial management of political parties is lawful, accountable and transparent. It is crucially important that the parties participating in the exercise of democratic public power and using public funds act in compliance with legal requirements and set an example for other organisations with their financial management. This may contribute to the order of Hungarian public finances and to mitigating corruption risks.

In 2016 the SAO revised its methodology for party audits and at the same time, it constructed a methodology for auditing the legality of the financial management of party foundations. The objective of the methodological guidelines is to ensure that the SAO's audits are conducted on the basis of contemporary methods that comply with the requirements of objectivity, uniform criteria for audits and evaluations, consistent use of concepts and suitability for standardisation.

In 2017, the SAO published audit reports on the audits of four parties (MSZP, Fidesz, KDNP, JESZ) and three party foundations (Antall József Foundation [AJA], Barankovics István Foundation [BIA], Foundation for a Civic Hungary [SZPMA]). It conducted a follow-up audit at one party – KDNP – and three party foundations: AJA, BIA and SZPMA.

Changes in the legal provisions on party financing, political campaign and elections are included in Annex III.



The SAO reports on the audits of foundations and public foundations are available by clicking on the titles of the reports under the Section referenced in the highlighted Annex number or can be downloaded from the SAO website (www.asz.hu).

ANNEX II,
SECTION 5



The SAO reports on the audits of parties and party foundations are available by clicking on the titles of the reports under the Section referenced in the highlighted Annex number or can be downloaded from the SAO website (www.asz.hu).

ANNEX II,
SECTION 5

Findings

The key tenet of compliant financial management is compliance with the pertinent legal regulations. Accordingly, a party may not accept prohibited, non-cash contributions. Where the audit uncovers that the party has accepted prohibited non-cash contributions, the SAO determines the value thereof in accordance with the provisions of the Party Act, and at the SAO's call, the party is required to pay this amount into the central budget within fifteen days. In the case of late payment, the outstanding arrears should be collected similarly as taxes, and subsidies granted to the given party from the central budget should be reduced by the amount of the accepted prohibited contribution.

Conclusions

Through the presentation of the regularity of the financial management of parties and their foundations, as well as the amounts of public funds used, the SAO provided the general public with an objective view of the operation of these organisations. The audit pointed out both 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 acceptance of prohibited contributions may give rise to corruption risks as well.

Recommendations

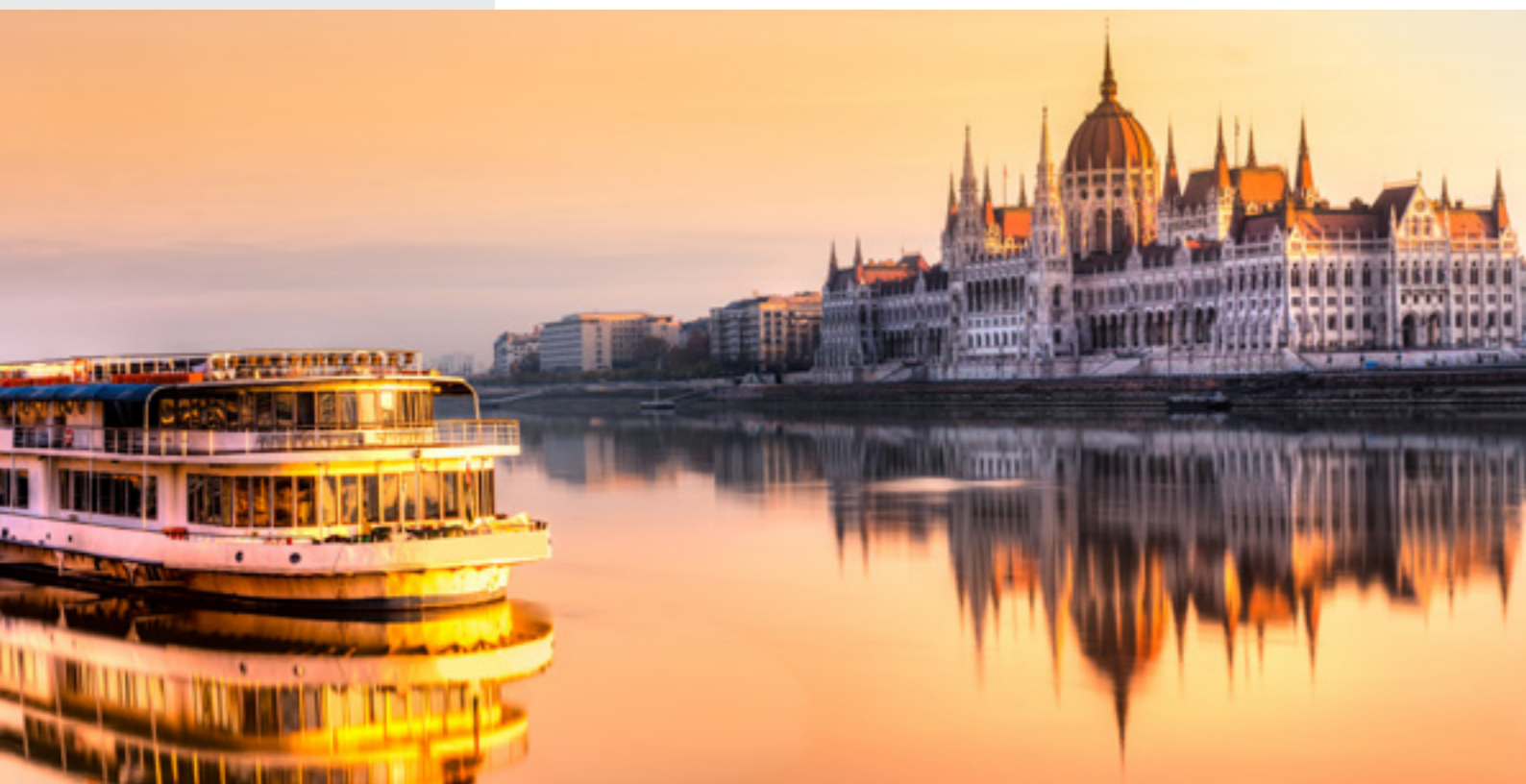
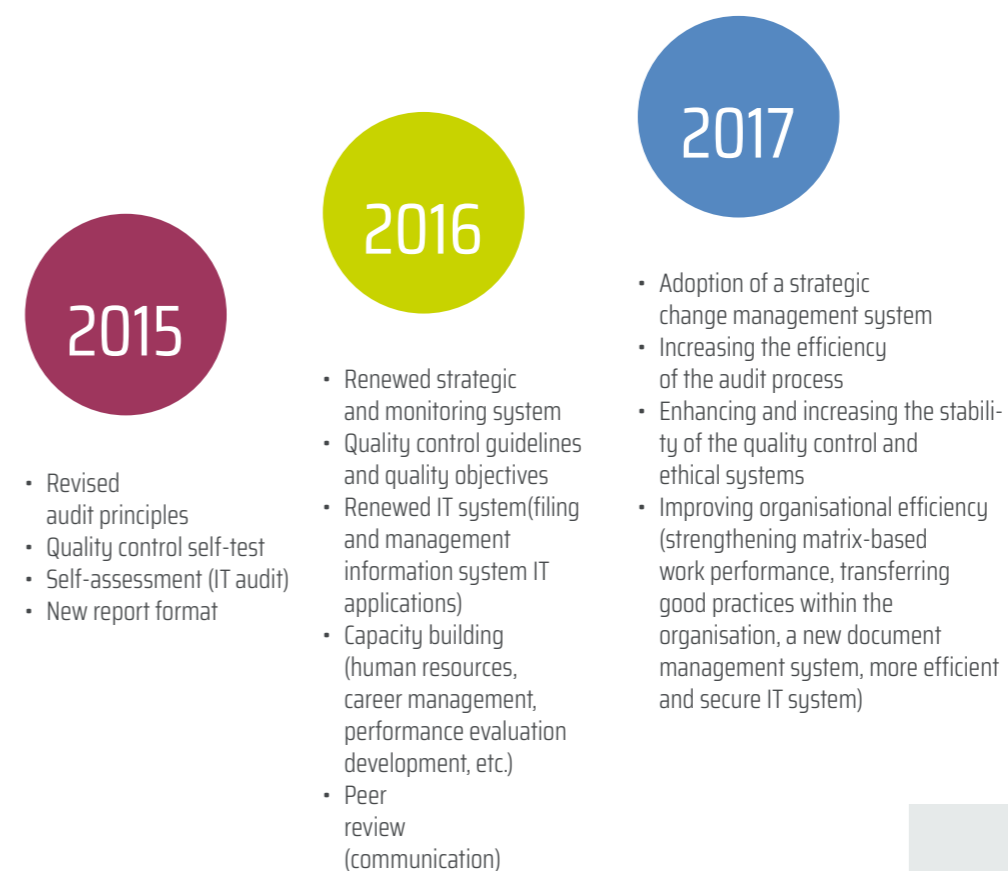
In 2017, the SAO formulated 35 recommendations for parties and 15 recommendations for party foundations, in response to which the action plans were completed by the deadline – except for those of JESZ and AJA. JESZ and AJA submitted their action plans in response to the findings of the report past the deadline.

In order to facilitate the regularity of task performance, in addition to the recommendations, the SAO also addressed warning letters in connection with the audits to the Presidents of two parties – Fidesz and KDNP – and two party foundations: BIA and SZPMA. The follow-up audits did not result in recommendations; the SAO turned to the Presidents of AJA and BIA in regard to the foundations' failure to execute the tasks specified in the action plans. In response, the President of BIA complied with the obligation to notify the SAO's president of the actions taken, but the President of AJA failed to adhere to this obligation.

III. ORGANISATIONAL AND METHODOLOGICAL PROGRESS

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 system aligned with the tasks to be performed. With that in mind, the SAO alters and enhances its organisational structure continuously. From time to time, the SAO renews its methodologies and procedures as appropriate in order to ensure the application of contemporary, modern and efficient methods and the efficient utilisation of resources to facilitate objective audits with easy-to-utilise results.

MAIN ORGANISATIONAL DEVELOPMENT AND METHODOLOGICAL IMPROVEMENTS



1. Management of strategic changes

In its revised organisational development strategy, the SAO committed itself to operating an organisational model that flexibly follows changes and that should be evaluated at regular intervals. The self-learning process allows the organisation to perform the necessary structural changes and to adapt to new environmental challenges in a flexible way. In 2017, the SAO constructed a model for the change management processes of its own operation, and started testing the practical operation of the model through pilot programmes. For the best utilisation of the results of the organisational development and methodological changes executed by the SAO, in 2017 the SAO launched an international knowledge product development process with respect to integrity, quality control, the utilisation of the audit work, publicly owned companies and IT systems. The results of the product development are utilised, in the framework of knowledge transfer and knowledge sharing, in the professional work of SAIs worldwide and in Hungary they provide good practices and an example to follow for the users of public funds.

In the ever-changing environment of our time, all SAIs should be open to accept and proactively manage changes if they are to preserve and enhance their values. Entailing continuous change management, the dynamic movement undertaken by the organisation typically creates new structures, solutions and organisation processes, and implies a continuous self-learning skill.

The organisation of the SAO is not a constant but a dynamic structure, in which environmental changes, changes in task performance and internal impulses continuously inspire changes. The internal structure composed of the organisational strategy and the basic principles defined therein is basically stable, while new operational elements and new linkages are emerging incessantly.

In order to preserve and enhance the basic principles defined in the strategy, there is a need to remain open to evaluate changes, to draw conclusions, and to utilise and then proactively manage changes in the continuously changing environment.

Change management is needed to ensure the best possible integration of the changes carried out by the organisation, and to avoid diverging and reversing processes.



In this context, the SAO constructed an organisational process model or guidelines that contain a series of substantive patterns which were developed by the self-learning organisation but which can be also applied as a norm.

In a six-month test period, the organisation collects experiences to gauge whether the expected benefits of systematic change management are realised. Based on the feedback, the guidelines and procedures are finalised.

The SAO consistently strives to utilise the innovation results achieved in its organisational development and professional audit works in the international arena as well, primarily via knowledge transfer and knowledge sharing with other SAIs. To that end, in 2017 the SAO systematised its intensive knowledge product development and international knowledge sharing work. The main areas of these efforts are the support provided to the “well-managed state” (integrity approach, utilisation of the audit work) and areas of SAIs’ own capacity building (e.g.: quality control). Regarding the latter, the results achieved by the SAO so far have been already summarised and the concept of the international dissemination of the knowledge products have been outlined.

2. Increasing the efficiency of the audit process

Composed of seven phases, the audit process ensures that in the given phase, individual components of the audit are performed professionally and efficiently by auditors with adequate skills and experience. Responsibilities are defined for each phase of the audit, and the control points and stop points in between individual phases ensure that each individual sub-process of the audit is carried out objectively, interdependently and in high quality.

From 2017, a number of procedural rules were incorporated into the audit process, which render the audit work more targeted, reduce the audit time where appropriate, and ensure the quicker and more flexible execution of programmes that are better aligned with the risks of the audits. The results achieved in the area of digitisation provided the means for further improving the efficiency of the audit process. All this alleviated the burdens on audited entities.

Dividing the audit process into phases and carrying out the sub-processes by specialised units increased the reliability and objectivity of audit results and the efficiency of audit projects.

The IT developments implemented at the SAO created an opportunity for supplying audit evidence primarily by electronic means on the online data request portal designed for this purpose, which reduces the number of on-site visits at the audited entities and hence, saves costs and time for the organisation. In addition, after the methodological changes some of the evidence can be obtained not only directly from the audited entity, but also from other credible sources, thereby reducing the number of documents to be requested from the audited entities.

In order to improve the efficiency of the audit workflow and to ensure the economic and expedient use of the available, limited human resources, among the documents to be requested and used during the audit, the audit methodology defined – based on risk assessment and priority – a number of cardinal documents. Moreover, based on the SAO’s methodologies and the professional rules of auditing, the SAO may only receive documents and data that can be used as evidence during the execution of the audit task.

Parallel to the methodological and technology changes, the SAO phased out obsolete and no longer relevant procedures. It is a conceptual change affecting thematic audits that topic-specific programme units have been defined and used, for the first time, during the 2017 audits of local governments. The previously used general, comprehensive audits have been replaced by a more contemporary and more efficient methodological approach.



The SAO’s proposal:

As part of reducing red tape, some parts of e-governance should be extended to the SAO (obligation to supply the data required for the audits electronically; free access for the SAO to authenticated document databases).

What are cardinal documents?

Cardinal documents are such documents among all the documents that are to be obtained from the audited entity without which, in the lack of further audit action, a finding can be drawn up and included in the draft audit report on the grounds of the audited entity’s violation of legal regulations.

What are topic-specific programme units?

Topic-specific programme units are parts of audit programmes – that can be used for the purposes of multiple audits and are applied in accordance with the risks of the audited entities – that contain specific audit approaches and tasks in relation to an individualised topic.

In 2017, the most typical topic-specific programme units were the following:

- integrity and internal control: it evaluates control over the operation of local governments and the extent to which the operation is protected against corruption,
- finance: it evaluates financial balance and financial processes,
- asset management: it evaluates local governments' asset management, asset protection and preservation of asset value.
- investment: it evaluates the regularity and propriety of investment decisions,
- projects: it evaluates the preparatory work for projects partly implemented from central funding and the level of preparedness for the implementation of the project,
- audit of management: it can evaluate performance categories (effectiveness, expediency, efficiency) either in relation to the programme units listed above, or independently, for the organisation as a whole or for parts of the organisation (including: performance of the finance area, evaluation of management).

3. Quality control and ethical system

As declared in its strategy, one of the most important core values of the State Audit Office of Hungary is a commitment to quality. It was on this basis that the SAO designed its quality controlled operation, which is being improved on an ongoing basis, thereby facilitating the objectivity of the SAO's activity.

The SAO has developed an efficiently functioning quality control system in recent years. Following the principles of INTOSAI's "Quality Control for SAIs (ISSAI 40)", the SAO developed its own quality control principles and a set of quality control guidelines intended to ensure the efficient enforcement of the principles within the organisation. The SAO's management has made continuous efforts to familiarise all employees with the new quality control system and invited their comments on how to improve its efficiency.

Based on the quality targets set by the SAO for 2017, the individual organisational units set up their own target systems and action plans were developed in order to implement the plans.

After two years, in 2017 the SAO tested the proper operation of the established quality control system and the extent to which the quality control principles are enforced. The self-test questionnaire has been expanded compared to previous years. In addition to all ISSAI 40 guidelines, it also includes questions relevant to quality control from the document published in October 2016 under the title "Supreme Audit Institutions Performance Measurement Framework" (SAI PMF). Moreover, in order to provide an even more reliable overview, the scope of the respondents was also extended to include all organisational units of the SAO.

An analysis of the self-test results led to the conclusion that the quality control system has improved continuously compared to past periods. There are no critical or controversial areas in the system.

At the end of 2016 and at the beginning of 2017, after the publication of the new code of conduct of supreme audit institutions adopted at INTOSAI Congress XXII, due diligence was completed on the ethical norms of the State Audit Office of Hungary, followed by the systematic renewal of the norms. An important milestone in this process was the 2017 revision of the document entitled "Ethical principles of the State Audit Office of Hungary". The revised document contains a summary of the general principles and values that facilitate the SAO's performance of the tasks specified for its operation in a transparent, accountable, credible, objective, independent, unbiased and highly professional manner.

ETHICAL PRINCIPLES OF THE SAO



In 2017, the SAO's Ethical Forum commenced its work. In keeping with the recommendation of the renewed ethical standard, the objective of the Forum is to gather – and facilitate the utilisation of – good practices that may be applied to resolve ethical issues and dilemmas effectively, to discuss potential practices to be avoided, and to solidify ethical values at the level of the organisation.

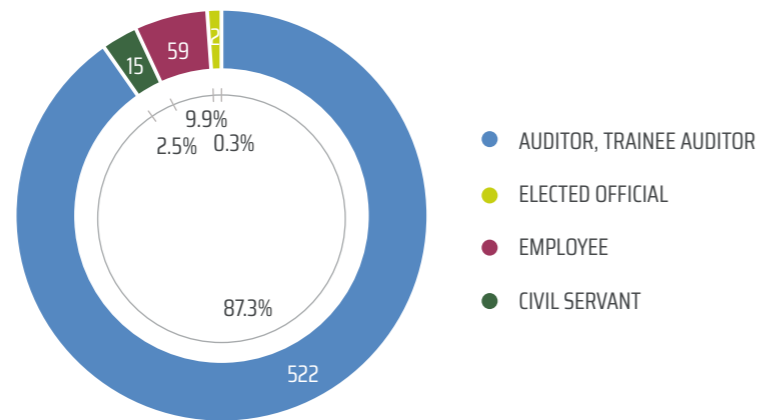
In accordance with its Strategy, in the framework of quality-oriented operation the SAO strives to fill each position with the most suitable candidate. In 2017, the SAO renewed the management selection system under the career management framework established in 2016.

4. Increasing the efficiency of resources and organisational processes

It is the strategic objective of the SAO to carry out its duties with the effective utilisation of the resources available. In the interest of high quality and, at the same time, efficient task performance, the SAO continuously strives to develop its skills and capacities. In addition to selecting an optimal organisation structure, this endeavour includes the regular review and development of human capital and the SAO's information technology and administrative systems.

In 2017, the SAO operated at maximum capacity utilisation. In 2017, the statistical average staff number of the organisation was 597 persons.

DISTRIBUTION OF THE SAO'S STAFF BY LEGAL RELATIONSHIP (PERSONS, %)



The SAO also involved external specialists in its task performance with 8,690 auditor days. For the optimal utilisation of the resources available and in support of the project principle in work performance, the SAO has created a matrix-based organisational structure. The SAO's 2017 analysis results confirmed that it is the matrix organisational structure that best fits the organisational requirements, allowing the SAO to meet, to the greatest possible extent, complex and diverse external and internal expectations. The main advantages of this organisational structure are the following:

- efficient labour force utilisation,
- resource utilisation is better aligned with the changing conditions, provides the framework for a self-learning organisation,
- supports integrity,
- stimulating, diverse work performance

For efficient, systematised and integrated human resource management, the SAO takes into account both external and internal environmental effects and features, and enhances its processes and registration systems.

In its strategy, the State Audit Office of Hungary committed itself to operating a stable and uniform, fact-based performance evaluation system that is applicable to the organisation as a whole and is equipped with a transparent criteria system, group-level and uniform success criteria and indicators. As a (self-)learning organisation, the SAO continuously reassesses its own operation and based on this review, it takes measures to improve the efficiency of its task performance. In order to implement its strategic objective, the SAO revised the performance evaluation system, as a result of which it carried out a series of technical and conceptual modifications. Compliance with ethical requirements was given a greater priority in the new system in order to facilitate transparent and responsible work performance.

Bearing the SAO's strategy in mind, in order to ensure efficient, effective and high-quality work performance, as an addition to the training system put in place by the SAO, from March 2016 the State Audit Office of Hungary runs knowledge centres focusing on financial, internal control and asset matters. In relation to the operation of the knowledge centres, in 2017 the SAO launched a "Good Practice" self-training programme as a new technique in knowledge transfer.

The operation of the new filing system introduced on 1 January 2017 met all expectations regarding the new system: improvement in security, reliability and retrievability provided clear justification for the introduction of the filing system.

The new IT rules of procedure formulated in 2017 contributed to the more efficient and secure functioning of the information technology system.

Based on the rules of procedure and plans pertaining to business continuity, the enhancement of the network infrastructure commenced on central sites and in 18 offices

across the country. This resulted in a homogeneous office work arrangement from a data security perspective; consequently, it is now independent of the location of work performance within the organisation. In accordance with the business continuity plan, the development of the network infrastructure has been completed at all SAO sites. All of these changes were required to align IT with the matrix organisational structure and facilitated the efficient performance of its support function.

As part of the renewal of the stock of IT assets, new laptops and PCs were purchased, and the majority of the mobile devices provided to employees can be now repaired within the warranty period, which also greatly reduces costs and the working time loss arising from the breakdown or malfunctioning of IT devices.

An important consideration during the software tests and rollouts taking place in 2017 was the need to support efficient information exchange between the SAO and its external partners. In order to foster efficient work performance, the SAO purchased a market leader application that supports the character recognition of scanned documents. The application is expected to speed up the workflow of the audit work.

The SAO introduced resource-sparing measures in the area of administrative tasks, which improved the efficiency of the work performed. An analysis on the filing processes of 2017 pointed out that there is a need to reconsider – and redefine in a sensible manner – the length of the retention periods and the range of the documents to be retained. The Filing Plan was modified on this basis.





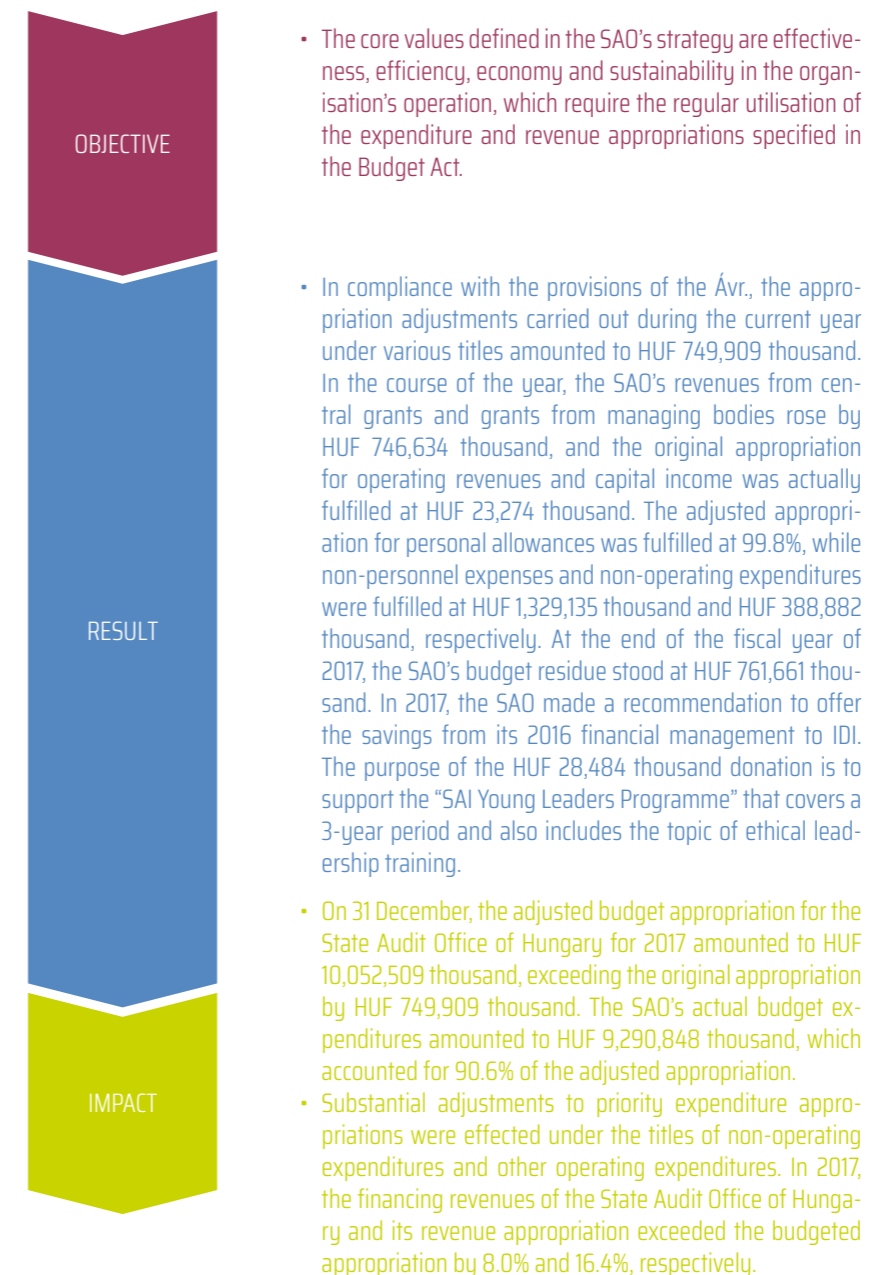
THE SAO'S FINANCIAL MANAGEMENT IN 2017

1. Budgetary statement of the SAO

Having reviewed the 2017 financial management of the State Audit Office of Hungary, the auditor found that the SAO's financial management was in compliance with the relevant legislation and internal policies, reasonable and cost-efficient, supporting the performance of its core activity. Based on the independent auditor's opinion, the annual budgetary statement provides a true and fair presentation of the execution of the 2017 budget of the State Audit Office of Hungary, on its financial position as at 31 December 2017, and the results of its financial management for the year then ended.

1.1. FINANCIAL POSITION OF THE STATE AUDIT OFFICE OF HUNGARY IN YEAR 2017

APPROPRIATION ADJUSTMENTS, REVENUES, EXPENDITURES, RESIDUES



1.2 FINANCIAL STATUS OF THE STATE AUDIT OFFICE OF HUNGARY IN 2017

ASSETS, LIABILITIES, SUSTAINABLE DEVELOPMENT



OBJECTIVE

- It is the duty of the State Audit Office of Hungary to preserve the value of its assets, to manage its invested assets – that constitute a part of national assets – responsibly, to renew and renovate its used assets for the preservation of value, to replace its permanent assets and to ensure sustainable development.

RESULT

- By the end of the fiscal year, the balance sheet total of the State Audit Office of Hungary rose to HUF 4,132,965 thousand, which implies a HUF 103,775 thousand increase compared to the previous year.
- Accounting for the largest part of the liabilities side of the balance sheet, shareholder's equity stood at HUF 3,388,722 thousand on 31 December 2017, up HUF 76,152 thousand compared to the end of the previous year. The increase in shareholder's equity can be attributed to the positive P&L of the current year.
- The savings resulting from the SAO's continuously improving efficiency in financial management were dedicated to increasing the technical quality of the tools supporting the audit work. As a result of the purchases made in 2017, the SAO's assets were renewed to a great extent, and a part of the obsolete information technology equipment was replaced.

IMPACT

- As a result of the SAO's financial management in 2017, the SAO's financial worth has increased.
- For the protection of human, societal and environmental resources, the SAO kept cost-efficient financial management in mind at all times, thereby contributing – indirectly, through the results achieved – to economic growth.

DEPICTION OF THE SAO'S ENVIRONMENTAL AWARENESS





ANNEXES

ANNEX 1: DUTIES OF THE STATE AUDIT OFFICE OF HUNGARY

Statutory duties of the State Audit Office of Hungary

With respect to the areas to be audited, the SAO Act highlights the following.

The SAO's audits cover the following:

- as part of auditing the financial management of public finances, the State Audit Office of Hungary shall audit the operation of the chapters within the structure of the central budget, the utilisation of social security funds and separated state funds, as well as the financial management of local governments, minority self-governments and their associations,
- as part of its audit of the utilisation of funds originating from public finances, the SAO shall audit the organisations funded from the central budget as well as the utilisation of the subsidies granted from public funds or of the public assets allocated for specific purposes free of charge from public funds,
- as part of its audit of the management of national assets, the SAO shall audit the management of assets belonging to the scope of public finances; the financial management of such assets; such activities of economic organisations owned in full or in part by the state, or owned for the most part by local governments, that are aimed at preserving and increasing the value of such assets; and compliance with the rules regarding the alienation and encumbrance of assets belonging to the scope of public finances, and may audit the financial management of assets by economic organisations owned in full or in part by the state or local governments,
- the final accounts prepared in relation to the execution of the central budget,
- the taxation and other revenue collection activities of the state tax authority and municipalities as well as the activity of the customs authority,
- the financial management of the National Bank of Hungary along with any activity that falls outside the scope of its basic tasks as well as the financial management of its foundations,
- the financial management of parties and party foundations,
- the utilisation of normative subsidies allocated from public funds to churches.

Moreover, it is the SAO's special task to give an opinion on the bill on the central budget.

Pursuant to Article 5(7) of Act LXVI of 2011 and to Section 90 of Act CXCV of 2011, the SAO annually audits the final accounts presenting the execution of the central budget. As early as the 2015 audit, the SAO's audit successfully covered 100% of the expenditures and revenues of the central subsystem, thanks to the introduction of its new audit methodology. The SAO also achieved this coverage during the audit of the execution of the 2016 budget. Pursuant to Article 5(1) of Act LXVI of 2011, the SAO annually provides an opinion on the budget bill.

In consideration of the key role of the exercise of proprietary rights over state property, pursuant to Article 5(4)a) of Act LXVI of 2011, Article 3(4) of Act CVI of 2007 and Article 14(1) of Act LXXXVII of 2010, the SAO conducts annual audits in that regard.

Audit experiences found, among other things, that the enforcement of ownership rights at local governments and at business associations in local government ownership was poor in numerous cases. The majority of local governments fail to exercise adequate control over the operation of the companies and typically neglect inspecting task performance. In addition, they do not exercise ownership control over internal audits and over the use of funds provided for the task performance of the entities.

The SAO has submitted a proposal on the comprehensive and conceptual renewal of this area. The proposal was also supported by the Government. In addition to the above, the State Audit Office of Hungary has developed a self-test system, which is unique in the sense that it can help improving the regularity of even those local governments that have not been subject to the SAO's audit yet.

Pursuant to Article 10(1)–(3) of Act XXXIII of 1989, in the context of legality audits the State Audit Office of Hungary continues to audit, every two years, the regularity of the financial management of political parties receiving state budget subsidies regularly. In this regard, in 2003 the scope of audit responsibilities increased further based on the SAO's accumulated experiences: every two years, the SAO conducts legality audits on the financial management of foundations that are the recipients of state budget subsidies under the referenced Act at foundations engaged in scientific, knowledge dissemination, research and education activities.

In 2013, the statutory audit obligations of the SAO increased further: it focused its activities on the transparency of the campaign costs related to the election of the Members of the Parliament (Section 8/B (1) and Section 9 (2) of Act LXXXVII of 2013) and on auditing the costs of election procedures. Based on legal regulations, the State Audit Office of Hungary is required to conduct such audits in each election period. This is because the financial resources for the costs of the preparations, the execution of elections and for other costs associated with the activity of the electoral bodies must be granted from the central budget, up to the amount determined by the National Assembly. The State Audit Office of Hungary is required to inform the National Assembly of the use of these funds.

The 2016 amendment to Act CXXXIX of 2013 on the National Bank of Hungary stipulates that the SAO is responsible for auditing the financial management of the foundations established by the MNB. Beyond its audit tasks, the SAO performs a number of additional tasks. Pursuant to the Act on the National Bank of Hungary, prior to putting forward a proposal for the appointment or dismissal of the MNB's auditor, the Governor of the MNB consults with the President of the State Audit Office of Hungary.

The State Audit Office of Hungary audits the financial management of the Compensation Fund – which is designed to protect policyholders and is governed by the Investor Protection Fund Directorate – specified in Act CCXIV of 2015 on certain damage compensation measures taken in order to strengthen the stability of the capital market (Quaestor Act) (pursuant to Section 130 of Act XXXVII of 2014, from 2014 the SAO also audits the Resolution Fund).

NA resolutions

Economic developments, the SAO's well-defined but exponentially increasing scope of activity and the expansion of the tasks arising from changes in the economic environment pose continuous challenges to the SAO. The National Assembly defines special audits and needs for professional support where the SAO's work may create value added in improving, utilising and protecting public property.

In its Resolution No. 35/2009 (V. 12.) and Resolution 34/2015 (VII. 7.), the National Assembly recognised the work performed by the State Audit Office of Hungary in the interest of detecting corruption risks, and its activities carried out for the promotion of an integrity-based organisational culture.

As an extension of this endeavour, the National Assembly supported the view that, in respect of organisations involved in managing public funds and public property, the State Audit Office of Hungary should widen its consultancy activities regarding management systems and should support the training of ethical managers in public finance.

In Resolution No. 35/2009 (V. 12.), the National Assembly agreed that, in line with its strategic objectives, the SAO should audit the areas that pose corruption risks and implement its priority – already approved – project aimed at the identification of corruption risks (Integrity Project). It also declared that, in implementing the provisions of Resolution No. 43/2005 (V. 26.) of the National Assembly, the SAO developed the Public Finance Quarterly into a high-quality professional journal, and requested the SAO to continue to pursue its advisory and opinion leader activities and the publication of the Public Finance Quarterly.

By its Resolution No. 41/2013 (V. 27), the National Assembly supported the State Audit Office of Hungary in participating in the Development Initiative (IDI) activities of the International Organisation of Supreme Audit Institutions (INTOSAI), and for the SAO to provide professional support to this initiative as donor, with special regard to Hungarian foreign trade strategy.



In Resolution No. 41/2014 (XI. 13.) and Resolution No. 21/2016. (X. 13), the National Assembly recognised and supported the SAO's corporate social responsibility undertaken in an effort to increase financial literacy and to extend financial awareness to society as a whole.

Both in 2016 and 2017, the SAO satisfied the request for professional support (Resolution No. 31/2015 (VII. 7.) of the National Assembly) during the preparations for organising the 2024 Olympic Games in Budapest.

In Resolution No. 11/2017 (VI. 14.), the National Assembly prescribed the methodological enhancement of organisations performing audit work in the system of public finances and the review of the training material on audits.

ANNEX 2:

REPORTS, ANALYSES AND STUDIES PREPARED BY THE SAO IN 2017 BY FOCUS AREA

Reports, analyses and studies published in 2017 by audited or analysed entity:

1. Audit institutions

Reports

- 17084** Report – Audit on the Hungarian Energy and Public Utility Regulatory Authority
- 17086** Report – Audit on the information systems of the National Tax and Customs Administration
- 17114** Report – Audit on the regularity of the National Bank of Hungary
- 17124** Report – Audit on public bodies – Hungarian Chamber of Pharmacists
- 17129** Report – Follow-up audit on the financial management of the Hungarian State Treasury
- 17178** Report – Audit on public bodies – Hungarian Veterinary Chamber

2. State-owned enterprises

Reports

- 17021** Report – Audit on the asset preservation and financial management activities of state-owned (or partly state-owned) enterprises – Nemzeti Színház Kiemelkedően Közhasznú Nonprofit Zrt.
- 17054** Report – Audit on the asset preservation and financial management activities of state-owned (or partly state-owned) enterprises – Gálfi Béla Gyógyító és Rehabilitációs Közhasznú Nonprofit Kft.
- 17056** Report – Audit on the asset preservation and financial management activities of state-owned (or partly state-owned) enterprises – MNF Magyar Nemzeti Filharmonikus Zenekar, Énekkar és Kottatár Nonprofit Kft.
- 17057** Report – Audit on the asset preservation and financial management activities of state-owned (or partly state-owned) enterprises – Vasútegészségügyi Nonprofit Közhasznú Kft.
- 17064** Report – Audit on the asset preservation and financial management activities of state-owned (or partly state-owned) enterprises – Gabonakutató Nonprofit Közhasznú Kft.
- 17097** Report – State-owned enterprises – Audit on the asset preservation and financial management activities of state-owned (or partly state-owned) enterprises – KTI Közlekedéstudományi Intézet Nonprofit Kft.

- 17098** Report – State-owned enterprises – Audit on the asset preservation and financial management activities of state-owned (or partly state-owned) enterprises – HungaroControl Magyar Légiforgalmi Szolgálat Zrt.
- 17099** Report – Follow-up audits – Follow-up audit on activities related to the exercise of proprietary rights over state property
- 17100** Report – State-owned enterprises – Audit on the asset preservation and financial management activities of state-owned (or partly state-owned) enterprises – MFB Invest Befektetési és Vagyonkezelő Zrt.
- 17106** Report – Audit on the asset preservation and financial management activities of state-owned (or partly state-owned) enterprises – Magyar Közlöny Lap- és Könyvkiadó Kft.
- 17107** Report – Audit on the financial management of regional waterworks
- 17122** Report – ND Nemzeti Dohánykereskedelmi Nonprofit Zrt. – Audit on the asset preservation and financial management activities of state-owned (or partly state-owned) enterprises
- 17123** Report – Audit on activities related to the exercise of proprietary rights over state property
- 17134** Report – Múpa Budapest – Művészetek Palotája Nonprofit Kft. – Audit on the asset preservation and financial management activities of state-owned (or partly state-owned) enterprises
- 17137** Report – Audit on the asset preservation and financial management activities of state-owned (or partly state-owned) enterprises – Ipoly Cípőgyár Termelő és Szolgáltató Kft.
- 17138** Report – Audit on the asset preservation and financial management activities of state-owned (or partly state-owned) enterprises – NOSTRA Vegyesipari Kereskedelmi és Szolgáltató Kft.
- 17139** Report – Audit on the asset preservation and financial management activities of state-owned (or partly state-owned) enterprises – HM Zrínyi Térképészeti és Kommunikációs Szolgáltató Közhasznú Nonprofit Kft.
- 17146** Report – Várgondnokság Közhasznú Nonprofit Kft. – Audit on the asset preservation and financial management activities of state-owned (or partly state-owned) enterprises
- 17147** Report – Audit on the asset preservation and financial management activities of state-owned (or partly state-owned) enterprises – BUFA Budapesti Faipari Termelő és Kereskedelmi Kft.
- 17148** Report – Audit on the asset preservation and financial management activities of state-owned (or partly state-owned) enterprises – DUNA PAPIR Termelő, Kereskedelmi és Szolgáltató Kft.
- 17149** Report – Audit on the asset preservation and financial management activities of state-owned (or partly state-owned) enterprises – DUNA-MIX Ipari Kereskedelmi Szolgáltató Kft.
- 17154** Report – Apertus Közszolgálati Oktatás-fejlesztési Központ Szolgáltató Nonprofit Kft. – Audit on the asset preservation and financial management activities of state-owned (or partly state-owned) enterprises
- 17155** Report – Annamajori Mezőgazdasági és Kereskedelmi Kft. – Audit on the asset preservation and financial management activities of state-owned (or partly state-owned) enterprises
- 17156** Report – Vas Megyei Temetkezési Kft. – Audit on the asset preservation and financial management activities of state-owned (or partly state-owned) enterprises
- 17157** Report – Magyar Turisztikai Ügynökség Zrt. – Audit on the asset preservation and financial management activities of state-owned (or partly state-owned) enterprises
- 17185** Report – Audit on the asset preservation and financial management activities of state-owned (or partly state-owned) enterprises – TLA Vagyonkezelő és -hasznosító Kft.
- 17196** Report – Audit on the asset preservation and financial management activities of state-owned (or partly state-owned) enterprises – Gödöllői Királyi Kastély Közhasznú Nonprofit Kft.
- 17197** Report – Audit on the asset preservation and financial management activities of state-owned (or partly state-owned) enterprises – Helikon Kastélymúzeum Közhasznú Nonprofit Kft.

- 17202** Report – Audit on the asset preservation and financial management activities of state-owned (or partly state-owned) enterprises – HM CURRUS Gödöllői Harc-járműtechnikai zártkörűen működő Részvénytársaság
- 17204** Audit on the asset preservation and financial management activities of state-owned (or partly state-owned) enterprises – Széchenyi Tőkealap-kezelő Zrt.
- 17205** Report – Audit on the asset preservation and financial management activities of state-owned (or partly state-owned) enterprises – Közzolgálati Kulturális Előadó-művészeti Nonprofit Kft.
- 17206** Report – Audit on the asset preservation and financial management activities of state-owned (or partly state-owned) enterprises – Magyar Tejgazdasági Kísérleti Intézet Kft.
- 17207** Report – Audit of UNI-MED Szeged Egészségügyi Szolgáltató Kft.
- 17211** Report – Audit on the asset preservation and financial management activities of state-owned (or partly state-owned) enterprises – Országos Fordító és Fordításhitelesítő Iroda Zrt.
- 17212** Report – Audit on the asset preservation and financial management activities of state-owned (or partly state-owned) enterprises – Robert Capa Kortárs Fotográfiai Központ Nonprofit Kft.
- 17215** Reports – Audit on the asset preservation and financial management activities of state-owned (or partly state-owned) enterprises – MAHART- Szabadkikötő Zrt.
- 17216** Reports – Audit on the asset preservation and financial management activities of state-owned (or partly state-owned) enterprises – Balatoni Halászati Zrt.
- 17217** Report – Audit on the asset preservation and financial management activities of state-owned (or partly state-owned) enterprises – ÉKKO Építőipari, Közzolgálató, Kereskedő és Oktató Kft.
- 17222** Report – Audit on the asset preservation and financial management activities of state-owned (or partly state-owned) enterprises – ÓNTE Ópusztaszeri Nemzeti Történelmi Emlékpark Közhasznú Nonprofit Kft.
- 17224** Report – Audit on the asset preservation and financial management activities of state-owned (or partly state-owned) enterprises – Volánbusz Közlekedési Zrt.
- 17226** Report – Audit on the asset preservation and financial management activities of state-owned (or partly state-owned) enterprises – HSSC Szolgáltató Központ Kft.
- 17227** Report – Audit on the asset preservation and financial management activities of state-owned (or partly state-owned) enterprises – Hungaroring Sport Zrt.
- 17228** Report – Audit on the asset preservation and financial management activities of state-owned (or partly state-owned) enterprises – Hortobágyi Halgazdaság Zrt.
- 17232** Report – Audit on the asset preservation and financial management activities of state-owned (or partly state-owned) enterprises – NFP Nemzeti Fejlesztési Programiroda Nonprofit Kft.
- 17236** Report – Audit on the asset preservation and financial management activities of state-owned (or partly state-owned) enterprises – MACIVA Magyar Cirkusz és Varieté Nonprofit Kft.
- 17238** Report – Audit on the asset preservation and financial management activities of state-owned (or partly state-owned) enterprises – HM ARZENÁL Elektromechánikai zártkörűen működő Részvénytársaság
- 17239** Report – Audit on the asset preservation and financial management activities of state-owned (or partly state-owned) enterprises – HONVÉDELMI MINISZTERIUM ARMCOM Kommunikációtechnikai zártkörűen működő Részvénytársaság
- 17240** Report – Audit on the asset preservation and financial management activities of state-owned (or partly state-owned) enterprises – Balatoni Halgazdálkodási Nonprofit Zrt.
- 17242** Report – Audit on the asset preservation and financial management activities of state-owned (or partly state-owned) enterprises – Grand Tokaj Zrt.
- 17250** Report – State-owned enterprises – Audit on the asset preservation and financial management activities of state-owned (or partly state-owned) enterprises – Magyar Házak Közhasznú Nonprofit Kft.
- 17251** Report – State-owned enterprises – Audit on the asset preservation and financial management activities of state-owned (or partly state-owned) enterprises – Duna Médiaszolgáltató Nonprofit Zrt.
- 17252** Report – Audit on the asset preservation and financial management activities of state-owned (or partly state-owned) enterprises – Nemzeti Filmszínház Nonprofit Kft.

- 17253** Report – Audit on the asset preservation and financial management activities of state-owned (or partly state-owned) enterprises – AGROSTER Besugárzó Zrt.
- 17254** Report – Audit on the asset preservation and financial management activities of state-owned (or partly state-owned) enterprises – MALÉV GH Földi Kiszolgáló Zrt.

3. Central budgetary institutions

Reports

- 17017** Report – Audit on the operation of the information system of public finances and the official statistical service
- 17048** Report – Audit on the financial and asset management of specific institutions of the central sub-system – “Tóparti Otthon”, Home for the Disabled and Rehabilitation Institution of Jász-Nagykun-Szolnok County
- 17049** Report – Follow-up audit on the audit reports on the financial management and operation of public higher education institutions – Magyar Táncművészeti Főiskola (Hungarian Dance Academy)
- 17050** Report – Follow-up audit on the audit reports on the financial management and operation of public higher education institutions – Pannon University
- 17051** Report – Follow-up audit on the audit reports on the financial management and operation of public higher education institutions – University of Miskolc
- 17053** Report – Audit on the financial and asset management of specific institutions of the central sub-system – Szent Kozma és Damján Rehabilitation Hospital
- 17061** Report – Audit on the national framework for data protection as well as on certain key data records in the framework of an international cooperation
- 17065** Report – Audit on the financial and asset management of specific institutions of the central sub-system – Darvastó Employment Institute
- 17066** Report – Felső Szabolcsi Kórház – Audit on the financial and asset management of specific institutions of the central sub-system
- 17071** Report – Audit on the financial and asset management of specific institutions of the central sub-system – Directorate General for Public Procurement and Supply
- 17075** Report – Follow-up audit on the audit reports on the financial management and operation of public higher education institutions – Hungarian University of Fine Arts
- 17076** Report – Follow-up audit on the audit reports on the financial management and operation of public higher education institutions – Semmelweis University
- 17083** Report – Audit on the financial and asset management of specific institutions of the central sub-system – National Institute of Medical Rehabilitation
- 17085** Report – Opinion on the 2018 central budget appropriation bill of Hungary
- 17095** Report – Audit on the financial and asset management of specific institutions of the central sub-system – Bethlen Gábor Agricultural and Food Industry Vocational School
- 17096** Report – Audit on the financial and asset management of specific institutions of the central sub-system – Magyar Gyula Horticultural Vocational School
- 17099** Report – Follow-up audits – Follow-up audit on activities related to the exercise of proprietary rights over state property
- 17105** Report – Institutions of the central sub-system – Audit on the financial and asset management of specific institutions of the central sub-system – Hungarian National Museum
- 17112** Report – Follow-up audit on the audit reports on the financial management and operation of public higher education institutions – Széchenyi István University
- 17113** Report – Follow-up audit on the audit reports on the financial management and operation of public higher education institutions – University of Dunaújváros
- 17120** Report – Follow-up audit on the audit reports on the financial management and operation of public higher education institutions – University of Nyíregyháza
- 17121** Report – Audit on the financial and asset management of specific institutions of the central sub-system – Toldi Miklós Food Industry Vocational School and Dormitories
- 17123** Report – Audit on activities related to the exercise of proprietary rights over state property

- 17130** Report – Follow-up audit on the audit reports on the financial management and operation of public higher education institutions – Károly Róbert College, as the legal predecessor of Eszterházy Károly University
- 17131** Report – Follow-up audit on the audit reports on the financial management and operation of public higher education institutions – Eszterházy Károly College, as the legal predecessor of Eszterházy Károly University
- 17142** Report – Audit on the financial and asset management of specific institutions of the central sub-system – Komárom-Esztergom County Integrated Social Institution
- 17145** Report – Audit on the follow-up system of EU-funded research, development and innovation grants
- 17150** Report – Follow-up audit on the audit reports on the financial management and operation of public higher education institutions – Budapest University of Technology and Economics
- 17179** Report – Audit on the financial and asset management of specific institutions of the central sub-system – Museum of Ethnography
- 17180** Report – Audit on the financial and asset management of specific institutions of the central sub-system – Museum of Fine Arts
- 17189** Report – Audit on the institutional system of child protection
- 17192** Report – Audit on the financial and asset management of specific institutions of the central sub-system – Szentannai Sámuel Secondary School and Student Hostel of Karcag
- 17198** Report – Audit on the financial and asset management of specific institutions of the central sub-system – Fejér County Child Care Centre and Regional Child Protection Service
- 17199** Report – Audit on the financial and asset management of specific institutions of the central sub-system – Borsod-Abaúj-Zemplén County Child Care Centre and Regional Child Protection Service
- 17208** Report – Execution of the 2016 budget of Hungary – Audit on the execution of the 2016 central budget of Hungary
- 17209** Report – Audit on the financial and asset management of specific institutions of the central sub-system – Aranysziget Home
- 17210** Report – Audit on the financial and asset management of specific institutions of the central sub-system – Pilis Children's Home, Kindergarten, Primary School, Special Vocational School, Skills Development Special Vocational School
- 17218** Report – Follow-up audit on the audit reports on the financial management and operation of public higher education institutions – University of Óbuda
- 17243** Report – Follow-up audit on the audit reports on the financial management and operation of public higher education institutions – University of Sopron
- 17245** Report – Follow-up audit on the audit reports on the financial management and operation of public higher education institutions – Budapest Business School
- 17246** Report – Follow-up audit on the audit reports on the financial management and operation of public higher education institutions – University of Kaposvár
- 17255** Report – Follow-up audit on the audit reports on the financial management and operation of public higher education institutions – University of Szeged
- 17258** Report – Follow-up audit on the audit reports on the financial management and operation of public higher education institutions – University of Debrecen

Analyses, studies

- T/417** Analysis – Operation of the graduate career tracking system
- T/420** Analysis – An analysis on the effectiveness of the Hungarian RDI activities
- T/421** An analysis on the status of public sector integrity by institution group
- T/422** Aspects to be considered by the Fiscal Council in formulating its opinion for the final vote on the 2018 central budget appropriation bill of Hungary
- T/423** An analysis on the audit experiences relating to the operation of mid-level governing bodies
- T/424** Analysis – The impact of EU funds and the accumulation and use of residues on the budget structure
- T/425** An analysis for the Fiscal Council on the budgetary processes in the first half of 2017
- T/426** An analysis on the macroeconomic correlations of the 2016 budgetary processes in relation to the audit on the final accounts
- T/427** An analysis on the integrity status of the public sector

4. Local governments and their companies

Reports

- 17001** Report – Budapest resource allocation – on the review of the allocation of revenues due to and shared by the Budapest Municipality and the Budapest district governments in 2016
- 17002** Report – Follow-up audits – Follow-up audit on the status and regularity of the financial management of local governments – Gyöngyös
- 17003** Report – Follow-up audits – Follow-up audit on the status and regularity of the financial management of local governments – Lábatlan
- 17004** Report – Business associations of local governments – Audit on the financial management of enterprises majority-owned by local governments – SZOVA Szombathelyi Vagyonhasznosító és Városgazdálkodási Zrt.
- 17005** Report – Business associations of local governments – Audit on the financial management of enterprises majority-owned by local governments – FEJÉRVÍZ Fejér Megyei Önkormányzatok Víz- és Csatornamű Zrt.
- 17006** Report – Audit on the financial management of enterprises majority-owned by local governments – Székesfehérvári Közszolgáltató Nonprofit Kft.
- 17007** Report – Audit on the financial management of enterprises majority-owned by local governments – Szerdahelyi József Műsorszolgáltató Nonprofit Kft.
- 17008** Report – Audit on the setup and operation of the internal control system of local governments – Abony
- 17009** Report – Audit on the setup and operation of the internal control system of local governments – Alsónémedi
- 17010** Report – Audit on the setup and operation of the internal control system of local governments – Ceglédbercel
- 17011** Report – Audit on the setup and operation of the internal control system of local governments – Győrszemere
- 17012** Report – Follow-up audits – Follow-up audit on the regularity of the asset management of the Local Government of Kőröstetétlen
- 17013** Report – Follow-up audits – Follow-up audit on the regularity of the asset management of the Local Government of Nyékládháza
- 17014** Report – Follow-up audits – Follow-up audit on the regularity of the asset management of the Local Government of Ócsa
- 17015** Report – Follow-up audits – Follow-up audit on the regularity of the asset management of the Local Government of Szeghalom
- 17016** Report – Audit on the financial management of enterprises majority-owned by local governments – Air-Horizont Pécs-Pogányi Repülőtér Fejlesztéséért Nonprofit Kft.
- 17018** Report – Audit on the financial management of enterprises majority-owned by local governments – Pécsi Sport Nonprofit Zrt.
- 17019** Report – Audit on the financial management of enterprises majority-owned by local governments – Debreceni Vízmű Zrt.
- 17020** Report – Audit on the financial management of enterprises majority-owned by local governments – Csarnok Veszprémi Csarnoküzemeltető, Rendezvényszervező és Kommunikációs Kft.
- 17022** Report – Audit on the financial management of enterprises majority-owned by local governments – Debreceni Városi Televízió Kft.
- 17023** Report – Audit on city museums with county rights – Herman Ottó Múzeum, Miskolc
- 17024** Report – Audit on city museums with county rights – Kecskeméti Katona József Múzeum, Kecskemét
- 17025** Report – Audit on city museums with county rights – Laczkó Dezső Múzeum, Veszprém
- 17026** Report – Audit on city museums with county rights – Savaria Megyei Hatókörű Városi Múzeum, Szombathely
- 17027** Report – Audit on city museums with county rights – Szent István Király Múzeum, Székesfehérvár

- 17028** Report – Audit on the financial management of enterprises majority-owned by local governments – Miskolci Városgazda Városgazdálkodási Közhasznú Nonprofit Kft.
- 17029** Report – Audit on the financial management of enterprises majority-owned by local governments – SZOLLAK Vagyonkezelő Kft.
- 17030** Report – Audit on the financial management of enterprises majority-owned by local governments – Zsolnay Örökségkezelő Nonprofit Kft.
- 17031** Report – Follow-up audit on the status and regularity of the financial management of local governments – Létavértes
- 17032** Report – Follow-up audits – Follow-up audit on the regularity of the asset management of the Local Government of Balatonfenyves
- 17033** Report – Follow-up audits – Follow-up audit on the regularity of the asset management of the Local Government of Borgáta
- 17034** Report – Audit on the setup and operation of the internal control system of local governments – Kaposszerdahely
- 17035** Report – Follow-up audit on the status and regularity of the financial management of local governments – Gyömrő
- 17036** Report – Follow-up audit on the status and regularity of the financial management of local governments – Kisköre
- 17037** Report – Follow-up audit on the regularity of the asset management of local governments – Local Government of District II, Budapest
- 17038** Report – Audit on the debt settlement of local governments – Audit on the debt settlement procedure of the Local Government of Aba
- 17039** Report – Audit on the debt settlement of local governments – Audit on the debt settlement procedure of the Local Government of Szigetvár
- 17040** Report – Audit on the setup and operation of the internal control system of local governments – Jászszentandrás
- 17041** Report – Audit on the financial management of enterprises majority-owned by local governments – ALFA-NOVA Energetikai Fejlesztő, Tervező és Vállalkozó Kft
- 17042** Report – Follow-up audit on the regularity of the asset management of the Local Government of Tiszabura
- 17043** Report – Audit on the financial management of enterprises majority-owned by local governments – Cívus Ház Zrt.
- 17044** Report – Audit on the financial management of enterprises majority-owned by local governments – Nyíregyházi Állatpark Nonprofit Kft.
- 17045** Report – Audit on the financial management of enterprises majority-owned by local governments – Kaposvári Városgazdálkodási Zrt.
- 17046** Report – Audit on the financial management of enterprises majority-owned by local governments – VÁROSGONDOZÁS EGER Ipari -, Kereskedelmi és Szolgáltató Kft.
- 17047** Report – Audit on the financial management of enterprises majority-owned by local governments – Agria-Humán Közhasznú Nonprofit Kft.
- 17052** Report – Audit of local governments based on financial monitoring – the Local Government of Rétság
- 17055** Report – Follow-up audits – Follow-up audit on the regularity of the asset management of the Local Government of Kiskunfélegyháza
- 17058** Report – Audit on the setup and operation of the internal control system of local governments – Bükkaranyos
- 17059** Report – Audit on the setup and operation of the internal control system of local governments – Local Government of District II, Budapest
- 17060** Report – Audit on the financial management of enterprises majority-owned by local governments – Régió Park Miskolc Kft.
- 17067** Report – Audit on the debt settlement of local governments – Audit on the debt settlement procedure of the Local Government of Kisnamény
- 17068** Report – Audit on the debt settlement of local governments – Audit on the debt settlement procedure of the Local Government of Gacsály
- 17069** Report – Audit on the setup and operation of the internal control system of local governments – Ópusztaszer
- 17070** Report – Audit on the setup and operation of the internal control system of local governments – Mezőkövesd
- 17072** Report – Audit on the financial management of enterprises majority-owned by local governments – Miskolc Holding Önkormányzati Vagyonkezelő Zrt.
- 17073** Report – Follow-up audit on the regularity of the asset management of the Local Government of Polgár
- 17074** Report – Follow-up audit on the regularity of the asset management of the Local Government of Pusztaszentlászló
- 17077** Report – Audit on the setup and operation of the internal control system of local governments – Sajószöged
- 17078** Report – Audit on the setup and operation of the internal control system of local governments – Szenna
- 17079** Report – Audit on the debt settlement of local governments – Audit on the debt settlement procedure of the Local Government of Biri
- 17080** Report – Audit on the setup and operation of the internal control system of local governments – Bakonytamási
- 17081** Report – Audit on the setup and operation of the internal control system of local governments – Ózd
- 17082** Report – Audit on the setup and operation of the internal control system of local governments – Kéthely
- 17087** Report – Follow-up audit on the regularity of the asset management of the Local Government of District III, Óbuda-Békásmegyer, Budapest
- 17088** Report – Follow-up audit on the regularity of the asset management of the Local Government of District IV, Újpest, Budapest
- 17089** Report – Follow-up audits – Follow-up audit on the regularity of the asset management of the Local Government of Baracs
- 17091** Report – Audit on the setup and operation of the internal control system of local governments – Mohács
- 17101** Report – Follow-up audits – Follow-up audit on the regularity of the asset management of the Local Government of Heves
- 17102** Report – Follow-up audit on the regularity of the asset management of local governments – Local Government of District XVII, Rákosmente, Budapest
- 17103** Report – Follow-up audit on the regularity of the asset management of local governments – Local Government of District XIX, Kispest, Budapest
- 17104** Report – Business associations of local governments – Audit on the financial management of enterprises majority-owned by local governments – Via Kanizsa Városüzemeltető Nonprofit Zrt.
- 17109** Report – Follow-up audit on the regularity of the asset management of the Local Government of District XIV, Zugló, Budapest
- 17110** Report – Follow-up audit on the regularity of the asset management of the Local Government of District XI, Újbuda, Budapest
- 17115** Report – Audit on the financial management of enterprises majority-owned by local governments – Újbuda Prizma Szociális Fejlesztési és Foglalkoztatási Közhasznú Nonprofit Kft.
- 17116** Report – Audit on the financial management of enterprises majority-owned by local governments – KŐKERT Kőbányai Kerületgondnoksági és Településüzemeltetési Non-profit Közhasznú Kft.
- 17118** Report – Follow-up audit on the regularity of the asset management of the Local Government of District XIII, Budapest
- 17119** Report – Follow-up audit on the regularity of the asset management of the Local Government of District XXII, Budafok-Tétény, Budapest
- 17127** Report – Follow-up audits – Follow-up audit on the regularity of the asset management of local governments – Local Government of District VI, Terézváros, Budapest
- 17128** Report – Audit on the debt settlement of local governments – Audit on the debt settlement procedure of the Local Government of Magyardombegyház
- 17132** Report – Audit on the financial management of enterprises majority-owned by local governments – XIII. Kerületi Egészségügyi Szolgálat Közhasznú Nonprofit Kft.
- 17133** Report – Audit on the financial management of enterprises majority-owned by local governments – Ferencvárosi Egészségügyi Szolgáltató Közhasznú Nonprofit Kft.
- 17135** Report – Audit on the financial management of enterprises majority-owned by local governments – Soproni Vízmű Zrt.
- 17143** Report – Follow-up audits – Follow-up audit on the regularity of the asset management of the Local Government of District IX, Ferencváros, Budapest
- 17144** Report – Follow-up audits – Follow-up audit on the regularity of the asset management of the Local Government of District X, Kőbánya, Budapest
- 17151** Report – Audit on the financial management of enterprises majority-owned by local governments – KÖZPARK Képzési Köztisztasági és Közfoglalkoztatási Non-profit Korlátolt Felelősségű Társaság
- 17152** Report – Audit on the financial management of enterprises majority-owned by local governments – Rákosmente Városfejlesztő, Városüzemeltető, Kivitelező, Karbantartó és Szolgáltató Kft.

17153 Report – Audit on the financial management of enterprises majority-owned by local governments – Újpesti Városgondnokság Szolgáltató Kft.

17164 Report – Audit on the financial management of enterprises majority-owned by local governments – Miskolci Szimfonikus Zenekar Nonprofit Kft.

17165 Report – Audit on the financial management of enterprises majority-owned by local governments – Szolnoki Szimfonikus Zenekar Nonprofit Kft.

17173 Report – Business associations of local governments – Audit on the financial management of enterprises majority-owned by local governments – Isaszegi Városgazda Nonprofit Kft.

17174 Report – Audit on the financial management of enterprises majority-owned by local governments – II. Kerületi Városfejlesztő és Beruházás-szervező Zrt.

17175 Report – Audit on the financial management of enterprises majority-owned by local governments – Érdi Városfejlesztési és Szolgáltató Kft.

17176 Report – Audit on the financial management of enterprises majority-owned by local governments – IKV Ingatlankezelő és Vagyongazdálkodó Zártkörűen Működő Részvénytársaság (Szeged)

17177 Report – Audit on the financial management of enterprises majority-owned by local governments – “FORENO” Foglalkoztatási és Rehabilitációs Nonprofit Korlátolt Felelősségű Társaság (Sopron)

17181 Report – Audit on the setup and operation of the internal control system of local governments – Hidegség

17182 Report – Audit on the setup and operation of the internal control system of local governments – Hajmás

17183 Report – Audit on the setup and operation of the internal control system of local governments – Tiszaszentmárton

17184 Report – Follow-up audits – Follow-up audit on the regularity of the asset management of the Local Government of District XVIII, Pestszentlőrinc-Pestszentimre, Budapest

17186 Report – Audit on the financial management of enterprises majority-owned by local governments – Pestszentlőrinc-Pestszentimre Egészségügyi Szolgáltató Nonprofit Közhasznú Kft.

17187 Report – Audit on the financial management of enterprises majority-owned by local governments – Dél-budai Egészségügyi Szolgálat Közhasznú Nonprofit Kft.

17188 Report – Audit on the financial management of enterprises majority-owned by local governments – TERIBER Terézvárosi Ingatlanfejlesztő és Beruházó Kft.

17190 Report – Audit on the financial management of enterprises majority-owned by local governments – Zuglói Városgazdálkodási Közszolgáltató Zrt.

17191 Report – Audit on the financial management of enterprises majority-owned by local governments – Újhartyán Település Üzemeltető és Ország Középe Ipari Park Kft.

17201 Report – Audit on the setup and operation of the internal control system of local governments – Bácsborsód

17203 Report – Audit on the financial management of enterprises majority-owned by local governments – Érdi Sport Szolgáltató és Kereskedelmi Kft.

17213 Report – Audit on the financial management of enterprises majority-owned by local governments – Óbudai Danubia Zenekar Nonprofit Kft.

17214 Report – Audit on the financial management of enterprises majority-owned by local governments – Zuglói Filharmónia Non-profit Kft.

17219 Reports – Audit on the financial management of enterprises majority-owned by local governments – Gerje-Forrás Természetvédelmi, Környezetvédő Nonprofit Kft.

17220 Reports – Audit on the financial management of enterprises majority-owned by local governments – Tápiómenti Városüzemeltető és Szolgáltató Kft.

17221 Reports – Audit on the financial management of enterprises majority-owned by local governments – Szekszárdi Víz- és Csatornamű Kft.

17223 Report – Audit on the debt settlement procedure of the Local Government of Somoskőújfalu

17225 Report – Audit on the financial management of enterprises majority-owned by local governments – Budafoki Dohnányi Ernő Szimfonikus Zenekar Közhasznú Nonprofit Kft.

17230 Report – Audit on the financial management of enterprises majority-owned by local governments – FÁBER Tervező, Fővállalkozó és Ingatlanforgalmazó Kft.

17231 Report – Audit on the financial management of enterprises majority-owned by local governments – Csongrád Megyei Településtisztasági Nonprofit Kft.

17233 Report – Follow-up audit on the regularity of the asset management of local governments – Local Government of District VII, Erzsébetváros, Budapest

17234 Report – Audit on the setup and operation of the internal control system of local governments – Karád

17235 Report – Audit on the setup and operation of the internal control system of local governments – Visegrád

17237 Report – Audit on the setup and operation of the internal control system of local governments – Egercsehi

17241 Report – Audit on the setup and operation of the internal control system of local governments – Veresegyház

17244 Report – Audit on the financial management of enterprises majority-owned by local governments – Óbudai Kulturális Központ Nonprofit Kft.

17247 Report – Audit on the setup and operation of the internal control system of local governments – Ják

17248 Report – Audit on the setup and operation of the internal control system of local governments – Tuzsér 2017

17249 Report – Audit on the setup and operation of the internal control system of local governments – Marcaltető 2017

17256 Report – Audit on the setup and operation of the internal control system of local governments – Mezőkeresztes 2017

17257 Report – Audit on the setup and operation of the internal control system of local governments – Nyírbátor 2017

Analyses, studies

T/415 Analysis – Possibilities of addressing the deficiencies identified during the audit of waste management companies vulnerable from the perspective of economies of scale

T/416 Summary study on the results of the integrity surveys conducted among business associations majority-owned by the local government

T/418 The financial management of city museums with county rights – Audit experiences

T/419 Analysis on the experiences of the operation of local government-owned business associations

5. Subsidised organisations outside of the general government

Reports

- 17092** Report – Audit on the legality of the 2014–2015 financial management of party foundations receiving budget subsidies – István Barankovics Foundation
- 17093** Report – Audit on the legality of the 2014–2015 financial management of party foundations receiving budget subsidies – Foundation for a Civic Hungary
- 17094** Report – Audit on the legality of the 2013–2014 financial management of parties receiving budget subsidies – Hungarian Socialist Party
- 17108** Report – Audit on the legality of the 2014–2015 financial management of parties receiving budget subsidies – Christian Democratic People’s Party
- 17111** Report – Follow-up audit on the legality of the 2012–2013 financial management of István Barankovics Foundation
- 17117** Report – Financial management of parties – Audit on the legality of the 2014–2015 financial management of parties receiving budget subsidies – Fidesz – Hungarian Civic Union
- 17125** Report – Audit on the utilisation of funds granted from the central budget to operators of public education institutions and service providers providing human services outside public finances – Matura Foundation
- 17126** Report – Audit on the utilisation of funds granted from the central budget to operators of public education institutions and service providers providing human services outside public finances – Művészetért Public Foundation
- 17136** Report – Follow-up audit on the legality of the 2012–2013 financial management of the Christian Democratic People’s Party
- 17140** Report – Audit on the utilisation of funds granted from the central budget to operators of public education institutions and service providers providing human services outside public finances – “Tehetségekért” Foundation
- 17141** Report – Audit on the utilisation of funds granted from the central budget to operators of public education and social institutions providing human services outside public finances – Közös Kincs Oktatási Szolgáltató Közhasznú Nonprofit Kft.
- 17158** Report – Audit on the utilisation of funds granted from the central budget to operators of public education institutions and service providers providing human services outside public finances – Rockenbauer Felsőoktatási Közhasznú Nonprofit Kft.
- 17159** Report – Audit on the utilisation of funds granted from the central budget to operators of public education and social institutions providing human services outside public finances – Hibó Tamás Foundation of the Arts
- 17160** Report – Audit on the utilisation of funds granted from the central budget to operators of public education institutions and service providers providing human services outside public finances – Magyarországi Németek Általános Művelődési Központja Intézményfenntartó és Működtető Közalapítvány
- 17161** Report – Audit on the utilisation of funds granted from the central budget to operators of public education institutions and service providers providing human services outside public finances – Tehetséges “Más Fogyatékosokért” Educational Foundation
- 17162** Report – Audit on the utilisation of funds granted from the central budget to operators of public education institutions and service providers providing human services outside public finances – Sziltop Oktatási Nonprofit Közhasznú Kft.
- 17163** Report – Audit on the utilisation of funds granted from the central budget to operators of public education and social institutions, service providers providing human services outside public finances – “Tehetségekért” Alapítvány
- 17166** Report – Audit on the financial management of foundations/public foundations – MÁV Symphony Orchestra Foundation
- 17193** Report – Follow-up audits – Follow-up audit on the legality of the 2012–2013 financial management of Antall József Foundation

- 17194** Report – Financial management of party foundations – Audit on the legality of the 2014–2015 financial management of party foundations receiving budget subsidies – Antall József Foundation
- 17195** Report – Financial management of parties – Audit on the legality of the 2014–2015 financial management of parties receiving budget subsidies – Democratic Community of Welfare and Freedom
- 17229** Report – Audit on the financial management of foundations/public foundations – Budapest Festival Orchestra Foundation

ANNEX III:

Main changes affecting the provisions on party financing, the election campaign and elections

2017

Campaign Act
The Campaign Act (Act LXXXVII of 2013) was supplemented with the following provision:
Section 8/B (2a) Within one year from the election of the Members of the National Assembly, the State Audit Office of Hungary shall, ex officio, audit the utilisation of the support at all parties that have set up a party list if the party list of the given party received at least 1% of the valid votes cast on the party lists.

2013

Campaign Act
New Act (Act LXXXVII of 2013) on the transparency of campaign costs:
Section 1 (1) At the general elections and by-elections of the Members of the National Assembly, each representative candidate for a single mandate constituency shall be entitled to support from the central budget amounting to 1 million forints. Section 2/A (1) The candidate for a single mandate constituency, nominated by a party setting up a party list entitled to the support defined in Section 3, may make a written statement to the Treasury, at the latest on the day following their registration becoming effective, on waiving their right to use the support according to Section 1 and on making it available for use by the party nominating them. Section 3 (1) At the general election of the Members of the National Assembly, the parties setting up a party list shall be entitled to support from the central budget. Section 8/B (1) Within one year from the election, the State Audit Office of Hungary shall, ex officio, perform a compulsory audit at the Treasury or, if necessary, at the candidate or, in the case according to Section 2/A, at the party nominating the candidate, concerning the use of the support according to Section 1 with respect to the candidates who have obtained a mandate in the National Assembly. The State Audit Office of Hungary shall communicate its audit findings to the Treasury. If the State Audit Office of Hungary reveals methods of use that do not comply with the provisions of Sections 1, 2 or 2/A, then the candidate or, in the case according to Section 2/A, the party nominating the candidate shall pay to the Treasury an amount determined by the Treasury, which must be commensurate with the infringements related to non-compliance with any of the criteria for support according to Section 1, but not more than double the amount of support according to Section 1.

Section 9 (2) The use of state and other funds according to the Act on the Operation and Financial Management of Political Parties spent on the election shall be audited by the State Audit Office of Hungary with respect to the candidates who have obtained a mandate in the National Assembly and their nominating organisations ex officio, and with respect to other candidates and nominating organisations at the request of other candidates or nominating organisations.
(4) If a candidate or a nominating organisation violates the provisions set forth in Section 7, they shall pay back to the central budget double the amount by which they have exceeded the total maximum amount that may be spent on the election according to Section 7 within 15 days after receiving a notice from the State Audit Office of Hungary.
(5) If the candidate or the nominating organisation fails to meet their obligation described in Subsection (4), the State Audit Office of Hungary shall communicate its audit findings to the Treasury. The Treasury shall adopt a resolution on the payment obligation described in Subsection (4), against which no appeal shall lie. The payment shall be due on the fifteenth day after the court has approved the resolution adopted by the Treasury or after the deadline for launching the procedure has expired without a procedure being launched.

Party Act	Act on Election Procedures
Provisions on the acceptance of prohibited contributions were amended in the Party Act (Act XXXIII of 1989):	New Act (Act XXXVI of 2013) on the electoral procedure: the previous provisions applicable to the SAO (Section 12) were supplemented as follows:
Section 4 (2) Asset contribution may not be given to a political party by any legal person or any organisation lacking the status of a legal person, and a political party may not accept any contribution from any legal person or any organisation lacking the status of a legal person. (3) A party may not accept any asset contribution from any other state. A party may not accept any contribution from a foreign organisation - irrespective of its legal status - or from non-Hungarian natural persons. A party may not accept any unanimous donations; donations of this type have to be paid in for the purposes of the foundation specified in Section 8 (1).	Section 148 (2) If a press product wishes to publish political advertisements, it shall send to the State Audit Office of Hungary a price list for its advertisement services within five working days after the call for elections. The State Audit Office of Hungary shall enter the price list into its records and publish it on its website. (3) Political advertisements shall only be published by press products which have had their price lists registered with the State Audit Office of Hungary. Political advertisements shall only be published in return for the consideration indicated in the registered price list. (4) The press products shall inform the State Audit Office of Hungary of published political advertisements within 15 days after the day of voting. This information shall contain a list of advertisements published for each candidate and nominating organisation, the customer who ordered the advertisement, the consideration paid, the time of publication and the volume. The State Audit Office of Hungary shall publish this information on its website.

1997

Act on Election Procedures

A new Act on Electoral Procedure (Act C of 1997), but the provisions applicable to the SAO (Section 5) did not change.

1993

Party Act

Provisions on the acceptance of prohibited contributions were amended in the Party Act (Act XXXIII of 1989):

Section 4 (2) Asset contribution may not be given to a political party by any budget organisation, moreover, by any state company or company operating with state participation, any foundation that receives direct budget subsidy or budget organisation subsidy, and a political party cannot accept any asset contribution from any budget organisation, moreover, from any state company, or company operating with the participation of the state, or from any foundation that receives direct budget subsidy or any budget organisation subsidy.

(3) A party may not accept any asset contribution from any other state. A party may not accept any unanimous donations; donations of this type have to be paid in for the purposes of the foundation that is mentioned in Section 8 (1).

1989

Party Act	Act on Election Procedures
Act XXXIII of 1989	Act XXXIV of 1989
Provisions on the acceptance of prohibited contributions:	It had one provision relevant to the SAO:
Section 4 (2) Asset contribution may not be given to a political party by any budget organisation or state company and a political party cannot accept any contribution from any budget organisation or state company. (3) A party may not accept any asset contribution from any other state. A party may not accept any unanimous donations; donations of this type have to be paid in for the purposes of the foundation that is mentioned in Section 8 (1).	Article 50 (1) The expenses incurred in connection with state tasks concerning the preparation and conduct of elections shall be covered from the state budget. The State Audit Office of Hungary shall inform the Parliament of the utilisation of such funds.



ANNEX IV:

LIST OF ABBREVIATIONS

Organisations

ÁEEK	National Healthcare Centre
AJA	Antall József Foundation
SAO	State Audit Office of Hungary
BCE	Corvinus University of Budapest
BIA	Barankovics István Foundation
Arbitration Board	Public Procurement Arbitration Board
UN	United Nations
EU	European Union
EUROSAI	European Organisation of Supreme Audit Institutions
Fidesz	Fidesz – Hungarian Civic Union
GVH	Hungarian Competition Authority
IDI	INTOSAI Development Initiative
INTOSAI	International Organisation of Supreme Audit Institutions
JESZ	Democratic Community of Welfare and Freedom
KDNP	Christian Democratic People's Party
KEKKH	Central Office for Administrative and Electronic Public Services. Its legal successor from 1 January 2017: Ministry of the Interior (Deputy State Secretariat for Maintaining the Records of the Ministry of the Interior)
HCSO	Hungarian Central Statistical Office
FC	Fiscal Council
MÁK, Treasury	Hungarian State Treasury
MEKH	Hungarian Energy and Public Utility Regulatory Authority
MNB	National Bank of Hungary
MSZP	Hungarian Socialist Party
MTA	Hungarian Academy of Sciences
NAIH	National Authority for Data Protection and Freedom of Information
NTCA	National Tax and Customs Administration
NEIH	National Electronic Information Security Authority
NMI	Hungarian Institute for Culture
OECD	Organisation for Economic Co-operation and Development
OEP	National Health Insurance Fund, from January 1 2017 : National Health Insurance Fund Manager
NA	National Assembly
OH	Education Office
ONYF	Central Administration of National Pension Insurance
OVF	General Directorate of Water Management
SZGYF	Directorate General for Social Affairs and Child Protection
SZPMA	Foundation for a Civic Hungary

Legislation

Fundamental Law	The Fundamental Law of Hungary (25 April 2011)
Áht. Implementation Decree	Government Decree No. 368/2011 (XII. 31.) on the Implementation of the Act on Public Finances
SAO Act	Act LXVI of 2011 on the State Audit Office of Hungary
Ávr.	Government Decree No. 368/2011 (XII. 31.) on the Implementation of the Act on Public Finances
Be.	Act XC of 2017 on Criminal Proceedings
Bkr.	Government Decree No. 370/2011 (XII. 31.) on the Internal Control System and on the Internal Audit of Central Budgetary Institutions
Budget Act	Act XC of 2016 on the Central Budget of Hungary for the year 2017
NGM Decree	Decree No. 29/2017 (X. 6.) of the Ministry for National Economy amending Decree No. 55/2016 (XII. 21.) of the Ministry for National Economy on the management and utilisation of centrally managed appropriations controlled by the Minister of National Economy
Party Act	Act XXXIII of 1989 on the Operation and Financial Management of Political Parties
Government Decree No. 1660/2015 (IX. 15.)	Government Decree No. 1660/2015 (IX. 15.) on the renewal of the remuneration system of the senior officers of business associations in majority state ownership
Other	
GCTS	Graduate Career Tracking System
GDP	Gross Domestic Product
BA	Business Association
ISSAI	International Standards of Supreme Audit Institutions
IT	Information Technology
RTV	radio and television
SAI PMF	Supreme Audit Institutions Performance Measurement Framework
OOR	Organisational and Operational Rules
SS Funds	Social Security Funds
V4 countries	countries of the Visegrád Cooperation: Hungary, the Czech Republic, Poland and Slovakia

ANNEX V: AUDITOR'S REPORT

INDEPENDENT AUDITOR'S REPORT and SUMMARY FOR THE SPEAKER OF THE NATIONAL ASSEMBLY on THE REVIEW OF THE 2017 ANNUAL BUDGETARY STATEMENT of the budget heading for the State Audit Office of Hungary

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Budapest, 27 March 2018

INDEPENDENT AUDITOR'S REPORT

to the management and governing body of the State Audit Office of Hungary Opinion

We have audited the accompanying 2017 annual budgetary statements of the budget heading for the State Audit Office of Hungary (hereinafter: SAO), which comprise the following statements audited by us:

- **The 2017 budget report, in which the realised budgetary revenue is HUF 10,052,509 thousand, and the realised budgetary expenditure is HUF 9,290,848 thousand.**
- **The 2017 residue statement, in which total residue is HUF 761,661 thousand.**
- Additional data reporting (accounts); the balance sheet **statement prepared for 31 December 2017, showing a balance sheet total of HUF 4,132,965 thousand; a profit and loss statement** for the year then ended, showing a profit for **the year of HUF 76,152 thousand;** notes on the accounts.

In our opinion, the attached annual budgetary statement provides a true and fair view of the execution of the SAO's 2017 budget, of the SAO's assets and financial standing as at 31 December 2017 and of the SAO's income position for the budget year then ended, in accordance with Act C of 2000 on Accounting (hereinafter: Accounting Act) and with Government Decree No. 4/2013 (I. 11.) on Public Finances Accounting (hereinafter: PF Decree) effective in Hungary.

Basis of the opinion

We conducted our audit in accordance with the Hungarian National Auditing Standards and other laws and regulations effective in Hungary on the subject of auditing. Our responsibility under these Standards is presented in more detail in the section entitled "The auditor's responsibility for the audit of the annual budgetary statement" of our report.

In accordance with the ethical requirements effective in Hungary pertaining to our audit of the annual budgetary statement, our organisation is independent of the SAO; moreover, we have also adhered to any other ethical responsibilities prescribed by the same ethical requirements.

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

Responsibility of Management and those charged with governance 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 the Accounting Act and the PF Decree, and for the maintenance of internal controls that 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.

In preparing the annual budgetary statement, Management is required to assess the enforcement of the going concern principle at the SAO, with special regard to organisational changes and changes in task performance during the reporting period or scheduled for the budget year following the reporting period. Moreover, Management is responsible for the application of the going concern accounting principle in the annual budgetary statement.

Those charged with governance are responsible for the supervision of the SAO's financial reporting process.

Auditor's responsibility for the audit of the annual budgetary statement

During the audit our objective is to obtain reasonable assurance that the annual budgetary statement as a whole is free from material misstatement, whether due to fraud or error, and to issue an independent auditor's report containing our opinion on the basis of our audit. While reasonable assurance means a high degree of assurance, it does not guarantee that an audit conducted in accordance with the Hungarian National Auditing Standards always detects otherwise existing material misstatements. Misstatements may result from fraud or error and are deemed to be material when it can be reasonably assumed that they may affect – either alone or jointly – the economic decisions of the users of the annual budgetary statement.

As part of an audit conducted in accordance with the Hungarian National Auditing Standards, we apply professional judgement and maintain an attitude of professional scepticism throughout the audit. In addition:


- We identify and assess the risk of material misstatements, whether due to fraud or error, in the annual budgetary statement, we design and execute audit procedures that are suitable for addressing such risks and obtain sufficient and appropriate audit evidence for substantiating our opinion. The risk of failure to detect material misstatements caused by fraud is higher than the risk of failure to detect misstatements resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the overriding of internal control;
- We study the internal control relevant to the audit in order to design audit procedures that are appropriate under the given circumstances, but not for the purpose of expressing an opinion on the efficiency of the SAO's internal control.
- We evaluate the compliance of the accounting policy applied by Management and the reasonability of Management's accounting estimates and of the relevant disclosures.
- We draw conclusions about the propriety of Management's application of the going concern principle in accounting and, based on the audit evidence obtained, about the existence of material uncertainty about events or conditions that may give rise to significant doubts at the SAO with respect to the enforcement of the going concern principle, with special regard to organisational changes and changes in task performance during the reporting period or scheduled for the budget year following the reporting period.

When we find that material uncertainty exists, we are required to call attention in our independent auditor's report to the relevant disclosures in the annual budgetary statement or, if the disclosures are inadequate in this regard, we are required to issue a qualified opinion. Our conclusions are based on audit evidence obtained up to the date of our independent auditor's report. However, future events or conditions may influence the enforcement of the going concern principle at the SAO.


- We evaluate the overall presentation of the annual budgetary statement - including the disclosures contained in the notes to the financial statements - and assess whether the annual budgetary statement presents a fair view of the underlying transactions and events.

Among other issues, we communicate to those charged with governance the expected scope and schedule of the audit and the significant findings of the audit, including significant deficiencies identified by our audit - if any - with respect to the internal control system applied by the SAO. During our audit of the SAO, we did not detect any significant deficiencies.

Budapest, 27 March 2018


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PUBLIC FINANCES