



ÁLLAMI SZÁMVEVŐSZÉK

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 2019



SUMMARY REPORT

for the National Assembly
on the Professional Activity and Operation
of the State Audit Office of Hungary in 2019

May 2020

B/10466.
www.asz.hu

László Domokos
ÁSZ
ÁLLAMI SZÁMVEVŐSZÉK
ELNÖK

László Domokos
President

TABLE OF CONTENTS



●	THE PRESIDENT'S FOREWORD	4
●	SUMMARY OF THE ANNUAL OPERATION OF THE SAO	8
●	SAO PROFESSIONAL ACTIVITIES IN 2019	14
	I. Utilisation areas of our activities	15
	1. Utilisation arising out of supporting a 'well-managed state'	15
	2. Utilisation in the legislation	24
	3. Utilisation by entities using public funds	28
	4. The areas of societal and academic utilisation	31
	II. Experiences of audits and analyses	37
	1. The conclusions of analyses evaluating budget and macroeconomic processes	37
	2. The audit of the management of national assets and financial management	45
	3. Audit findings regarding the accounting rules	55
	4. Activities of the SAO for the development and consolidation of the integrity approach	57
	5. Performance audits	66
	6. Further audit and analysis activities	68
	III. Continuous development and backtracking of performance in the operation of the SAO	73
	1. Development of the technological and human environment	76
	2. Audit processes and methodological developments	79
	3. Assessment and evaluation of the State Audit Office of Hungary's internal control system	82
●	FINANCIAL MANAGEMENT OF THE SAO IN 2019	84
	1. Financial statement of the State Audit Office of Hungary	85
●	ANNEXES	88
	Annex I: Duties of the State Audit Office of Hungary	89
	Annex II: Audits prescribed by law to be carried out annually, biannually, or those related to other events	92
	Annex III: List of abbreviations	96
	Annex IV: Reports and analyses prepared by the SAO in 2019	98
	Annex V: Auditor's report	108



THE PRESIDENT'S FOREWORD

Dear Reader,

In 2019, the State Audit Office of Hungary fulfilled its statutory tasks and managed the public funds and other resources entrusted to it effectively and expediently.

The Fundamental Law of Hungary, its chapter on Public Funds, and the laws enacting these provisions of the Fundamental Law provided an appropriate framework for the financial accounting of public funds in Hungary in 2019. As a result of the decision of the National Assembly in 2011, the protection of public funds and public property has been ranked appropriately as of 1 January, 2012, the entry into force of the Fundamental Law. According to the Fundamental Law of Hungary, our Country enforces the principle of a balanced, transparent and sustainable financial management. Economic organisations owned by the state or local governments shall manage their affairs in a manner determined in an Act, autonomously and responsibly, according to the requirements of lawfulness, expediency and effectiveness. In addition, every economic organisation managing public funds shall be obliged to publicly account for its management of public funds. Public funds and national assets shall be managed according to the principles of transparency and the purity of public life.

The State Audit Office of Hungary is the supreme financial and economic audit organisation of the National Assembly, pursuant to its role and competence as defined in the Fundamental Law. In the performance of its statutory duties defined in the SAO Act, the State Audit Office of Hungary audits the execution of the central budget, the management of public finances, the use of funds coming from the state budget and the management of national assets. 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 a 'well-managed state', including the expediency, lawfulness, and compliance with the requirement of integrity of utilisation.

This highlights the fact that the key constitutional mission of the SAO is to support the realisation and development of the requirements laid down in the public funds section of the Fundamental Law, which serve as a compass in the public funds system, including lawfulness, transparency, expediency, effectiveness and the purity of public life.

Consequently, the State Audit Office of Hungary is the guarantor of public finances as defined in the Fundamental Law, and the aim of which is not to detect errors or reprimand auditees, but to steer public finances in the right direction and to launch and maintain positive changes. Briefly: promotion of implementing public funds requirements provided for in the Fundamental Law. The objective of the SAO is that, in addition to and beyond the audits, the SAO should also provide wide-scale training activities, supportive self-tests, analyses, studies, opinions and recommendations for the more transparent and effective use of public funds and for the more efficient operation of public service institutions and systems. This strategic objective is founded on evidence-based, substantiated and objective audit findings.

Achieving our goals would not be possible without continuous improvement and striving for change. Looking back over the past 10 years, the State Audit Office of Hungary has carried out a complete organisational and methodological overhaul. One of the most obvious results is that in 2019, the SAO increased the number of audited entities by over 60 percent, to nearly 1,360 compared to the previous year. Firstly, the new, digital, monitoring-type assessments launched recently allow the SAO to conduct audit-type assessments, which suit the tasks of the SAO the most, and, secondly, the SAO is now able to audit hundreds of entities at the same time with the new audit methods. Thirdly, digitisation-based, monitoring-type assessments place much less burden on audited entities. One of the areas where it is the easiest to see is the subsystem of local governments. In 2019, the State Audit Office of Hungary audited the financial management and financial risks of nearly 800 local governments, while it evaluated the integrity of all the 3,200 local governments in 2020.

I am confident that the ultimate goal of the State Audit Office of Hungary is to utilise the audit work. The main goal of the SAO is, therefore, to widely disseminate the findings of the reports, the conclusions of the analyses and the recommendations and suggestions for resolving any errors that may arise, which allow public sector managers implement appropriate, forward-looking measures under the concept of transparency. One of the statutory duties of the SAO is to facilitate a 'well-managed state', which is mainly achieved by the wide-scale presentation and dissemination of 'good practices' identified during the audits.

In order to support the implementation and development of the principles of public funds set out in the Fundamental Law, in addition to modernising and further strengthening audit capacity, the State Audit Office of Hungary has increasingly focused on its supporting and advisory activity in recent years. Therefore, the State Audit Office of Hungary carries out a wide range of knowledge-sharing activities, and has been developing a constantly expanding advisory toolkit and network.

In addition to the audit reports, the SAO also prepares analyses and studies under its advisory function provided for by law. In its analyses, rather than disclosing findings, the SAO highlights system-level connections and effects, draws attention to dilemmas and risks in specific fields, and presents results achieved. During the performance of audits and studies, the SAO applies a holistic approach to audit topics, thus also allowing the National Assembly to make substantiated decisions in the course of its legislation activities, among other things.

A total of 32 analyses were performed by the qualified auditors of the State Audit Office of Hungary in 2019, more than ever before. The analyses covered key economic and social issues like the central budget, public debt reduction, VAT collection, the prevention of corruption, employment and job creation, health care, family support, child protection, climate change, intercity public transport, the financial management and integrity of state- and local government-owned companies and the financial management of foundations.

The aim of our advisory and knowledge-sharing activity is to provide support, and in this we are guided by, on the one hand, the provisions of the Fundamental Law, and, on the other hand, decisions passed by the National Assembly in recent years that defined additional tasks for the SAO. The spread of integrity-oriented organisational culture; prevention-based fight against corruption; the foundation and launch of ethical public finance management trainings; the methodological development of organisations conducting audits and performing supervisory activities; the improvement of conscious financial management and financial security among the general public—these are all missions that, directly or indirectly, contribute to the implementation of the provisions of the public finances chapter of the Fundamental Law.

The dynamically changing environment presents two great challenges for the SAO: one of them is leading by example and the other is meeting the challenges of digitisation. Leading by example means that the SAO shall show good practices to organisations that are constantly adapting to external environmental challenges, and support that this trend, which can serve the utilisation of the activity, is as effective as possible in the public sector. The challenges of digitisation also require a special focus on the tasks as they often require a different organisational focus and targeted cultural development.

Looking beyond 2019, the global crisis caused by the coronavirus epidemic accelerated these processes at the State Audit Office of Hungary, resulting in a kind of digital turbulence. Owing to the methodological, technological and human resources developments implemented in the past years, by 2020, the SAO has completely transitioned to digital



auditing and to a digitisation-based work environment. As a result, despite the significantly changed circumstances, the continuous performance of the tasks of the State Audit Office of Hungary became possible, it can perform the tasks provided for in the Fundamental Law and to ensure the role of the National Assembly in financial and economic control in accordance with the norms of the constitutional state, thus contributing to maintaining the framework of rule of law in public funds.

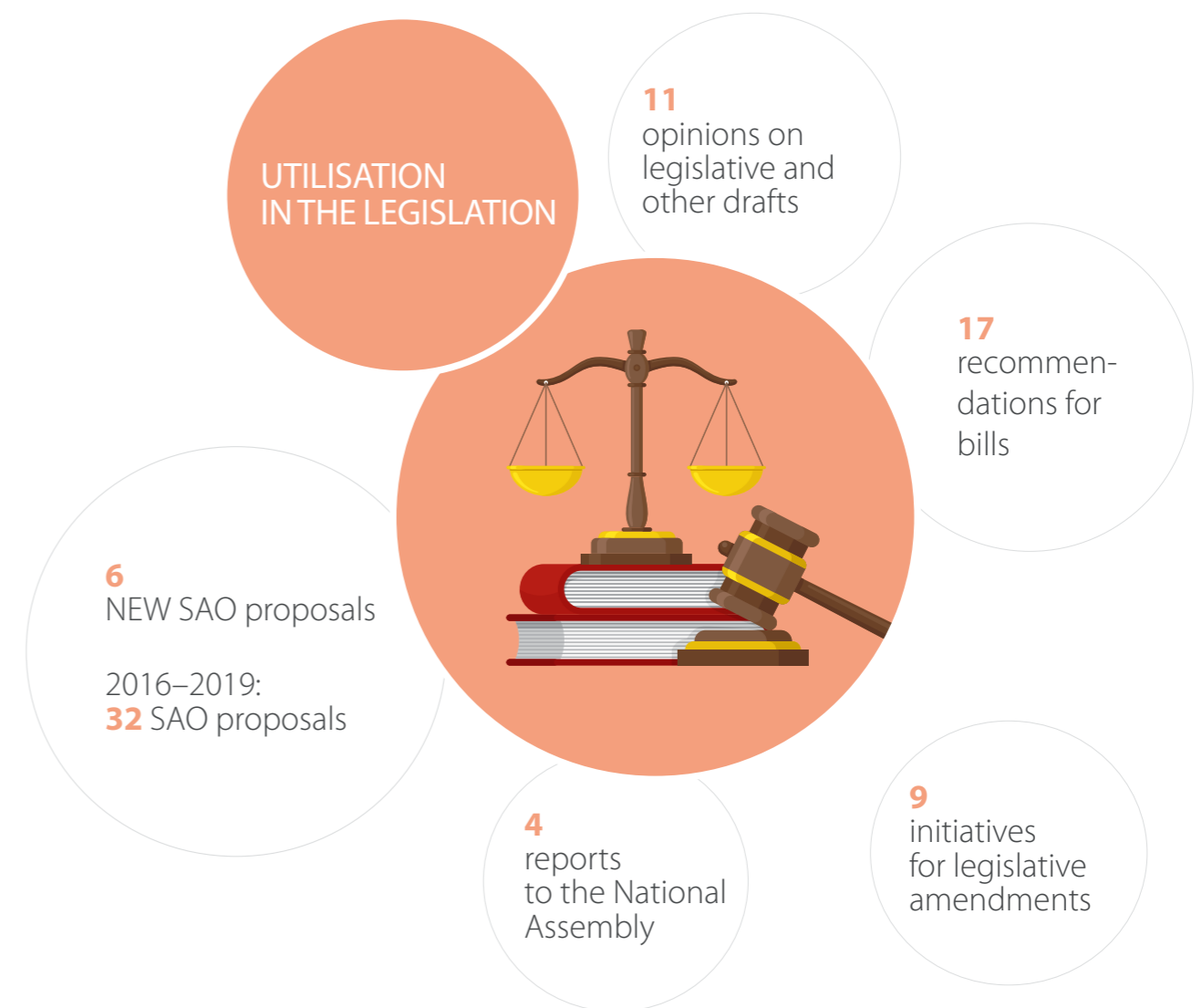
Last but not least, year 2020 has a historical importance for the State Audit Office of Hungary. The first independent State Audit Office of Hungary was established 150 years ago, back in 1870, and independent audits were re-launched 30 years ago, on 1 January, 1990, after the regime change in 1989. This means that the State Audit Office of Hungary has been the guardian of public funds for 150 years and the financial guarantor of democracy for 30 years.

László Domokos
President
State Audit Office of Hungary



SUMMARY OF THE ANNUAL OPERATION OF THE SAO

The results of last year



UTILISATION BY ENTITIES USING PUBLIC FUNDS

2019
1,362 audited entities

2018
806 audited entities

2011–2017
4,752 audited entities



254 audit reports

33 follow-up audits

202 warning letters

243 action plans

1,414 recommendations

1,867 news items on the SAO news portal

6,486 news items in the media

76 press releases

SOCIETAL UTILISATION



134 press conferences

50 financial awareness videos

ACADEMIC UTILISATION

32 analyses

3,668 self-tests downloaded

1 book publication

6 conference volumes, lectures

2 integrity methodology analyses

15 publications in specialised journals

5 integrity management trainings

4 conferences on good practices

Headline events



ACADEMIC CONFERENCE ON THE RELIABILITY OF INTERNATIONAL MEASUREMENT METHODS

The SAO's analyses examined the scientific basis of international corruption rankings, competitiveness measurements and international credit ratings, and also processed methodological issues of budget transparency and scientific performance measurements.

In view of the important public policy relevance of the scientific results of the analyses published in the special issue, the State Audit Office of Hungary and the Public Finance Quarterly Group, organised a scientific conference on the topics of the issue in September 2019. The title of the conference was: 'Reliable measurement systems to facilitate good governance'. The professional partner of the conference was the National University of Public Service, which provided the venue for the event.



CONFERENCE ON THE STATUS OF FINANCIAL AWARENESS

The State Audit Office of Hungary organised the Econventio Conference for the 8th time. The Econventio Roundtable Public Non-profit Association has been conducting a survey on the financial literacy of secondary school students in cooperation with the State Audit Office of Hungary and the University of Szeged and providing professional support for the publication of studies since 2011. In previous years, the survey focused primarily on the 14–20 age group, which in 2019 covered the adult strata of society for the fourth time. In the opening speech of the conference, the President of the SAO emphasised that it was necessary to develop the financial and management awareness of the Hungarian society. One of the main elements of this is financial planning, which means predictability and security for families.

Based on the results of research conducted by the OECD, the financial knowledge of Hungarian families is incomplete; therefore, the SAO has been engaged in improving financial and management awareness within the framework of its social responsibility since 2011, using its audit experience and professional-academic background. In order to promote the welfare and financial security of our Country, it is necessary to mitigate the risks to the national economy that result from those financial decisions of the citizens that are not sufficiently substantiated or that may result from misrepresentation.



V4+2 MEETING ON LEGISLATION CHARACTERISTICS

The delegation of the State Audit Office of Hungary participated at the professional meeting organised for the Visegrád countries, Austria and Slovenia, whose topics included the specifics in legislation and the mandates of the supreme audit institutions in the V4+2 countries, and the presentation of the state audit institutions' impacts via concrete audit experiences.

At the meeting, the President of the SAO presented the process of forming an opinion on the budget appropriation bill and emphasised that the State Audit Office of Hungary has two powers that are not typical of the supreme audit institutions in the international arena: on the one hand, the SAO not only performs the final accounts of the budget, but also prepares an opinion for the National Assembly on the substantiation of the budget appropriation bill; and, on the other hand, the President of the SAO is an ex-officio member of the Fiscal Council, Hungary's independent budgetary institution; therefore, the SAO prepares 8–10 analyses on the budget situation and certain issues of budget policy per annum.

During the meeting, the parties confirmed the Visegrád agreement signed 30 years ago, based on which they expected to maintain close cooperation. They outlined the shared objectives and economic background which has resulted in the development of a relevant and successful regional group during the recent years.

THE INTEGRITY SURVEY OF 2019 WAS RENEWED

In 2019, the State Audit Office of Hungary assessed the state of integrity at public sector institutions for the ninth time. The number of questions of the integrity questionnaire prepared on the basis of the new methodology was reduced to almost half, it also included several new questions, it became suitable for identifying the integrity risks of Hungarian public institutions, systematically monitoring changes, measuring previously unexamined control tools and their prevalence at the public sector organisations.

The most significant novelty of the reworked questionnaire is that those who completed it were given a self-assessment for each area of integrity, and they could compare their own results with those of other institutions in the specific group of institutions. This allowed respondents to identify areas for improvement.



EUROSAI UTILISATION PROJECT GROUP – INTERNATIONAL PROJECT FOR UTILISATION

The work of the EUROSAI project group led by the State Audit Office of Hungary was completed in 2019, and a manual summarising its work was drafted under the title: 'Societal utilisation and transparency of public finance audits'. The guidebook is a practical, well-applicable manual for supreme audit institutions, and it is based on the uniform international methodology regarding the societal utilisation of state (public finance) audits. Working together for a year, the state audit institutions participating in the project (from Albania, Finland, Croatia, Ireland, Hungary, Romania, Switzerland, and Latvia) were looking for an answer to how their work could be more relevant and more useful for their target groups, and how their work could have a greater impact on the everyday life of citizens. During the cooperation, members of the working group answered 75 key questions, and the State Audit Office of Hungary, which led the project, evaluated the results of the questionnaires and summarised the main findings in electronic publications. In addition to the main findings, the manual contains national case studies presenting the good practices of the participating countries, with examples that can easily be adopted internationally by other supreme audit institutions and that are applicable and useful in the everyday operation of state audit institutions.



SAO INTERNATIONAL INTEGRITY SEMINAR 2019

The State Audit Office of Hungary organised its sixth anti-corruption international integrity conference and knowledge-sharing seminar in 2019. The purpose of the event organised primarily for the state audit institutions of developing countries is to spread and reinforce the integrity-based public administration culture and support the development of the transparent functioning of the state through sharing the best Hungarian and international practices. In year 2019 the focus of knowledge transfer was on the integrity of procurements, the contracting practice of the public sector, as well as the employment of external experts. The seminar was attended by 31 audit experts from nearly 16 countries.

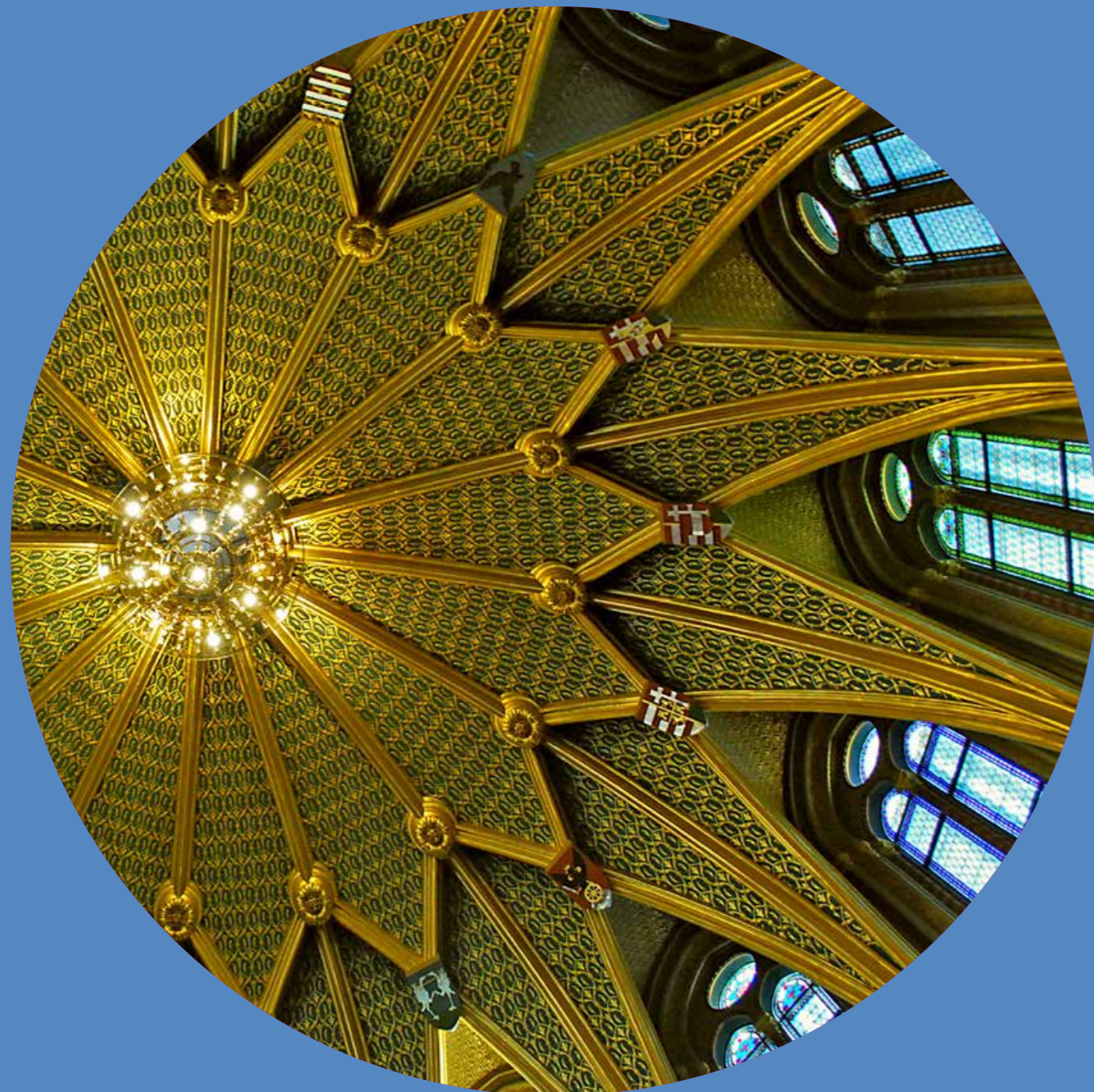
For the first time, the 2019 Integrity Seminar was built on the topic proposals consciously formulated in the evaluation and feedback forms completed by participants in 2018. The most important effect of the newly applied technology was personally addressing participants of the training, their sensitisation to the dilemmas and encouragement of common thinking.

There is a global need to introduce measurement systems that are sufficiently detailed and reliable to identify points of intervention. Based on meetings with the participants, it can be said that there is a worldwide need to nuance the one-sided country image formed by the indices measuring the perception of corruption. This is supported by the integrity survey, as well as the integrity methodology developed on the basis of the SAO's method.



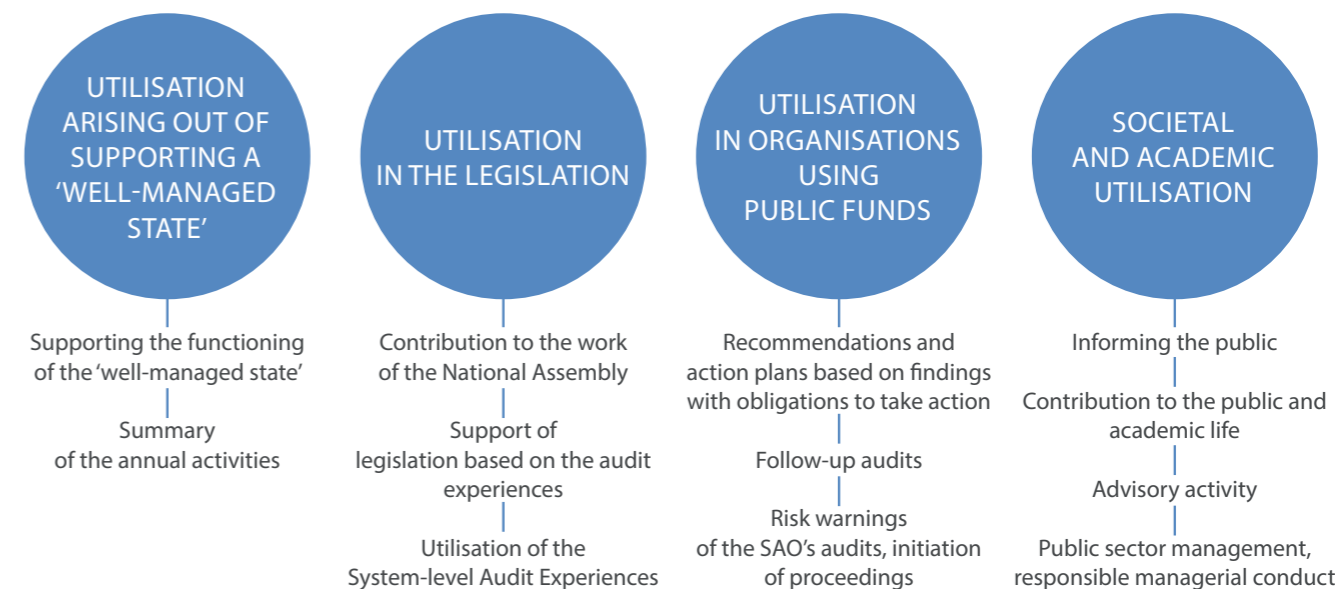
WWW.PENZUGYISZEMLE.HU

WWW.ASZHIRPORTAL.HU



SAO PROFESSIONAL ACTIVITIES IN 2019

I. UTILISATION AREAS OF OUR ACTIVITIES



1. Utilisation arising out of supporting a 'well-managed state'

1.1. SUPPORTING THE FUNCTIONING 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. Contributing to the well-managed state became a duty of the supreme public financial audit organisation as stipulated by Act LXVI of 2011 on the State Audit Office of Hungary.

Efficiency in the use of public funds is a key question with regards to efficient public sector management. In public sector management, therefore, every institution is required to continually supervise its own performance while performing its public duties using the public funds entrusted to them, and to associate efficiency and quality criteria with it.

Well-managed entities constitute the basis of a well-managed state and generate trust vested in the state. Therefore, the regularity, efficiency and effectiveness of the use of public funds and the use of public property, as well as the audit of all of these, play a key role in the operation of the state. The audit activity is performed at different levels.

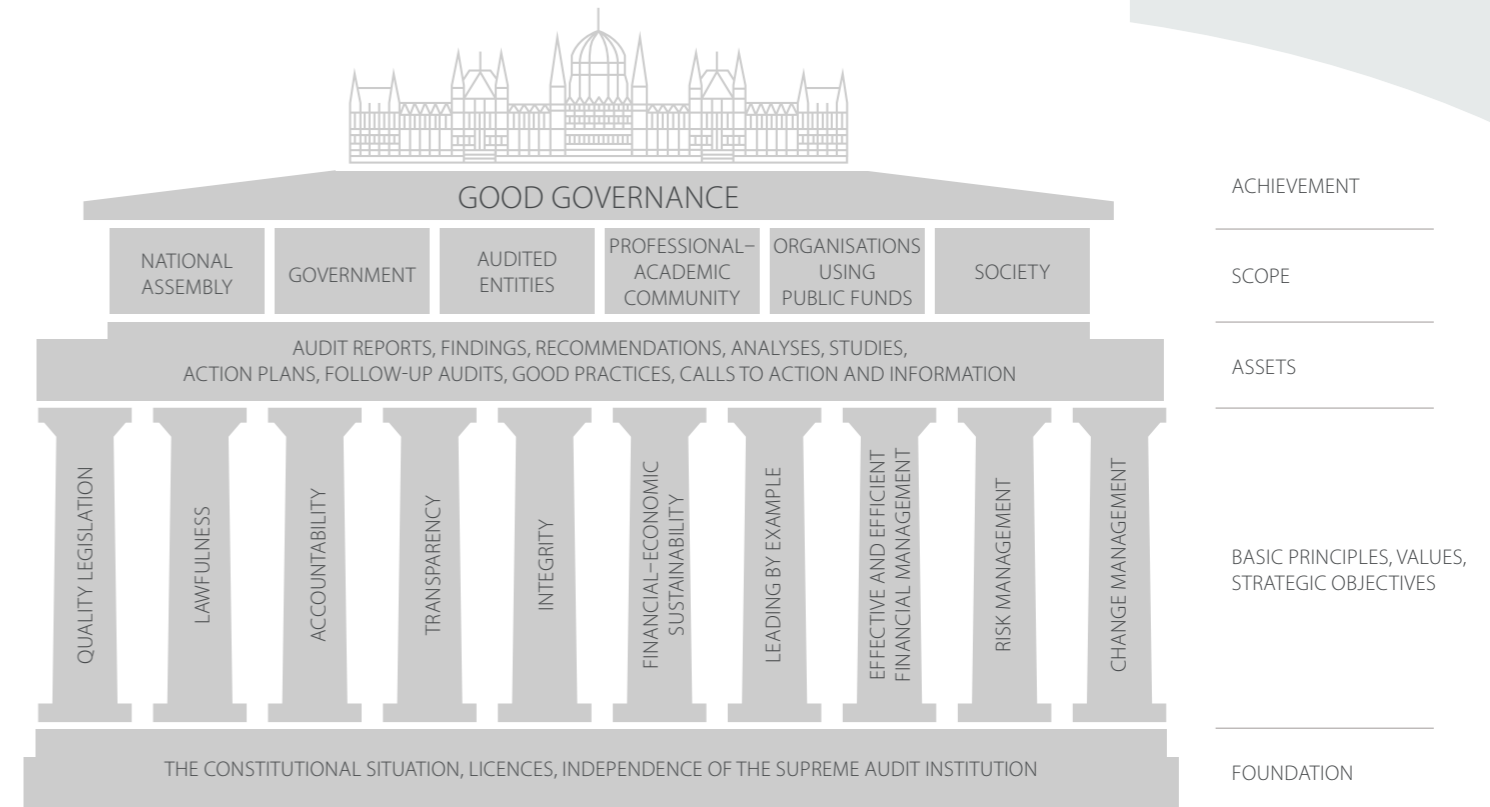
The overlapping 'lines of defence' of the different audit institutions and organisations existing in the Hungarian public law system are intended to ensure the audit of the use of public funds and public property. The Act on Public Finances names three areas in the audit system of public finances in order to ensure the regular, economical, and sound management of the funds of public finances and the national assets, the regular compliance with the reporting and data provision obligations, which create the three lines of defence of the public finances, thus contributing to the concept of the well-managed state.

THE STRUCTURE OF THE LINES OF DEFENCE



The State Audit Office of Hungary is considered an independent entity performing external audit, as the supreme financial and economic audit organisation of the National Assembly, is a key institution of the democratic institutional system, and an active member of the international organisation of the supreme audit institutions. Its main task arising from its legal status and its mission is to support the legislative and audit activity of the National Assembly using its experience. The SAO contributes to the support of a well-managed state by acting in its general competence, as well as in the scope of tasks defined by law, and by performing its advisory activities.

CONTRIBUTION OF SUPREME AUDIT INSTITUTIONS TO THE WELL-MANAGED STATE

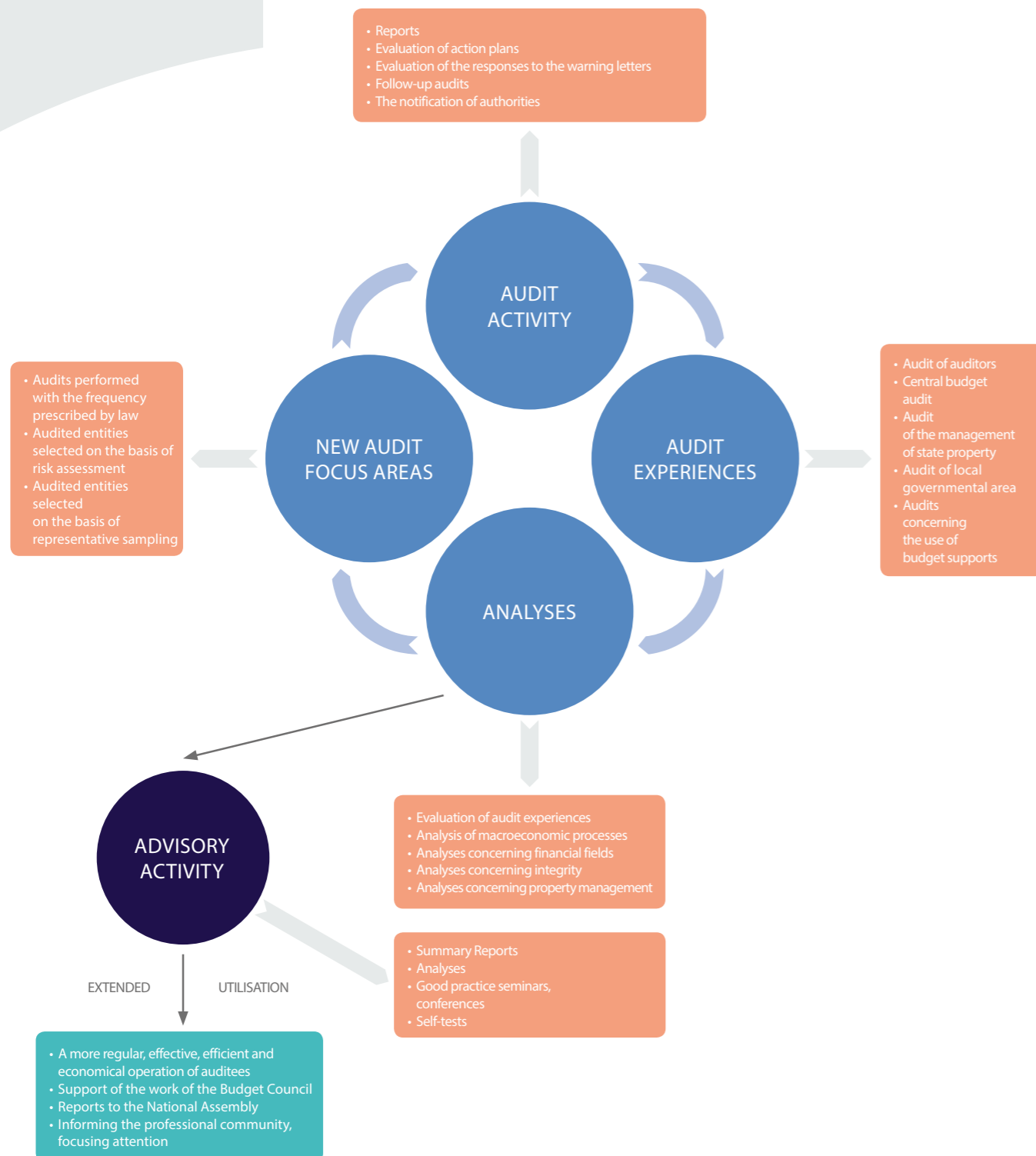


The State Audit Office of Hungary based on its authorisation and tasks provided in law, created the model named 'The contribution of supreme audit institutions to a well-managed state', which describes the basic requirements, principles, means and scope of facilitating the good governance of the state, thus providing a theoretical framework for its own activity aimed at facilitating good governance. However, ensuring sustainability in a constantly changing environment is an ongoing effort all over the world and also in Hungary. To meet this challenge, the State Audit Office of Hungary also includes two pillars (risk management, change management) that help address the sustainability aspect of the model.

In accordance with its role of exemplary institution, the dynamic SAO model accomplishes continual improvement in the public finance situation by means of continuous capacity and organisational development based on self-learning and of risk management and the change management tools reliant thereon. The model considers democratic political establishment and the constitutional state—as a competitive environment that encourages innovation—to be its fundamental operating framework and it attempts to integrate the concepts associated with the development of the state and its search for practical ways into a system-level conceptual framework, which also means a key and active role of the state.

1.2. SUMMARY OF THE ANNUAL ACTIVITIES

The contribution of the State Audit Office of Hungary to a well-managed state is implemented through a variety of tasks and activities. The auditing function and related measures improve and promote the more responsible and regular operation and transparent financial management of audited entities. Audit experiences may be utilised at several levels. On the one hand, they aim to strengthen the lines of defence, and on the other hand, they help to map out the areas that require further improvement. With the help of new audit focus areas, we can audit even more institutions, so the coverage of the use of public funds / public property can be increased, the society gets a fuller picture, and the analyses contribute to the foundation of audits, initiating legislative changes and advisory activities.



The wide range of audit and advisory activities of the SAO focused on five large areas in 2019. The focus areas were founded on the experience of the previous years and the legal obligations defined for the SAO in law, taking into account the current public financial risks.

1. Evaluation and analysis of budgetary and macroeconomic processes

The analysis and auditing of budgetary and macroeconomic processes was also a priority area in the activities of the State Audit Office of Hungary in 2019. In addition to monitoring the implementation of the central budget and giving an opinion on the budget appropriation bill, it prepared analyses for the Fiscal Council to assist in forming an opinion on the budget, as well as published analyses on other processes of high macroeconomic or budgetary importance.

The Fundamental Law of Hungary lays down the audit of the execution of the central budget as the number one task of the State Audit Office of Hungary. This was also the task of the State Audit Office of Hungary in 2019, the implementation of which required significant capacities. In addition to audit findings, our institution also assessed the budgetary and macroeconomic processes underlying the achievement of the budgetary targets in a separate analysis. The analysis highlighted several contexts that significantly reduced the vulnerability of Hungarian public finances—; thus, the country as a whole—such as a decrease in the share of foreign currency debt in public debt, an increase in the role of the population in financing public debt or a flexible system of reserve formation and utilisation. In addition to its opinion on the budget appropriation bill on Hungary's central budget for 2020, the State Audit Office of Hungary also published several analyses for the Fiscal Council in 2019 to support the performance of its tasks.

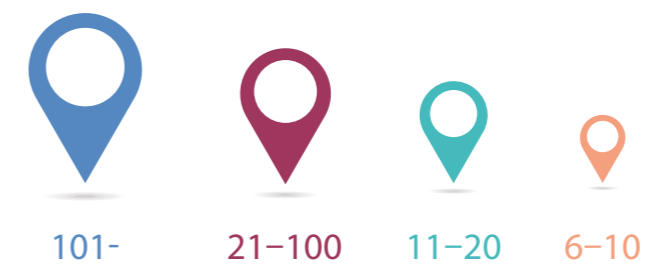
During its activities, the SAO considers the facilitation of compliance with the public debt rule as a top priority. In 2019, the focus of the analyses in this regard was on whether the continuous reduction of the public debt ratio could be sustained in the longer term. State Audit Office of Hungary separately analysed the factors that contributed to lasting decrease in public debt ratios and that pose a relevant risk. The analysis conducted to support a more flexible planning and execution of budgetary appropriations also highlighted possible areas to improve resilience. A separate analysis was dedicated to revealing the relationship between gross external debt and public debt financing. In connection with the public debt ratio, the SAO also analysed the factors influencing balanced growth of the Hungarian economy for the period between 2008 and 2018. The analysis focusing on the structural changes in the budget highlighted that even though EU funds are important in terms of economic growth, the budget is facing numerous challenges attributed to such funds. The SAO examined the question of tax reduction in the case of VAT in a separate analysis, which discusses the impacts of VAT reduction measures on the budget, and presented the extent to which the objectives set during VAT reduction were achieved, then evaluated how sustainably these measures contributed to the whitening of the economy. The State Audit Office of Hungary also emphasised that in terms of the reliability of budgetary planning it is crucial to develop and apply a macroeconomic and budgetary forecasting method which is able to forecast the changes precisely and within appropriate time.

2. Audit of the management of national assets and financial management

The main aim of financial management of national assets, state and local government assets, and public funds is the performance of public tasks. In accordance with the Fundamental Law of Hungary, each economic entity is obliged to manage the national assets and public funds according to the principles of transparency and the purity of public life, and be accountable for its financial management related to public funds before the public. The State Audit Office of Hungary conducted its audits aiming at management of national assets and public funds in three large fields in 2019 as well: at the local governments, at the central subsystems of public finances, and the organisations operating outside public finances which managed national assets or public funds, central budget and local governments funds.



Audited entities per settlement 2013-2019



101- 21-100 11-20 6-10
 AUDITED ENTITY IN THE PARTICULAR SETTLEMENT
 A TOTAL OF 872 SETTLEMENTS BELONG TO RANGE 1-5
 TOTAL: **1,007** SETTLEMENTS ARE AFFECTED
 (ENTITIES AUDITED MULTIPLE TIMES ARE ASSIGNED HIGHER NUMBERS)

In 2019, the SAO evaluated the area of finances, property management and indebtedness in the case of four groups of village municipalities, a total of 781 local governments. This contributed to the identification of risk areas requiring system-level or individual local government-level intervention for the sustainability of the financial equilibrium of local governments. In 2019, the debt settlement and investment activities of local governments were audited based on a new methodology, founded on the audit of the internal control system, in a modular system. The State Audit Office of Hungary audited the operation and financial management of local government-owned business associations, and also prepared four summary analyses on the experience of such audits.

The internal control system is based among others on the recommendations of COSO (Committee of Sponsoring Organizations of the Treadway Commission) and includes modern organisational management elements. The 5 elements of the internal control framework defined by COSO (control environment, risk management, control activities, information and communication, monitoring) are a set of complementary and closely interacting mechanisms. This model is followed by the internal control system developed pursuant to the Hungarian legal framework.

Representing a substantial share in the use of public funds, the institutions of the central subsystem may exert a significant impact on maintaining budgetary equilibrium, owing to the weight of their financial and property management activities and their task performance, the implementation of government policies and while performing their public duties, the standard of living, exercising the rights and duties of citizens. Therefore, the State Audit Office of Hungary audited these institutions several times in 2019. Health care was a prioritised area during these audits. The SAO prepared an analysis to summarise its experience in auditing the financial and property management of hospitals in accordance with the law, and it also audited emergency medical response. Asset management related to cultural assets was prioritised during the audit, the audit covered the public performance of the proper management of state-owned and state-protected cultural assets classified as national/state property, kept by the public collections maintained by the state, and the regularity of the tasks performed by the owners, the sectoral controllers and supervisory bodies in relation to the maintained organisations.

During the audit of state-owned business associations, the SAO assessed the regularity of the business association's operations and financial management, the regularity of the performance of financial and accounting and data provision tasks, and the regularity of property management. Elements of the financial management of the business associations classified in the government sector influencing the deficit of the government sector and public debt were prioritised during the audit. Therefore, the SAO continued to audit the regularity of the property management, asset preservation and value increasing activities of state-owned and majority state-owned business association. When auditing state-owned business associations, the SAO also examined whether those exercising proprietary rights had established the framework for the exercise of proprietary rights over its business associations, they had exercised their proprietary rights adequately and fulfilled their obligations.

The State Audit Office of Hungary audited organisations operating outside public finances in 2019 also. The range of proprietors of non-state institutions providing human services has been constantly expanding in recent years, and they receive a significant amount of budget support for the performance of public tasks every year. Institutions providing human services and operating outside public finances, carry out socially useful and community-building activities of public interest and public benefit, as well as public tasks using public funds. From among civil organisations, the SAO audited foundations in 2019, which receive significant support from the central budget and summarised its findings in an analysis. It is important to mention that the State Audit Office of Hungary also audited the financial management and operation of institutions that perform audit and supervisory activities.

3. Accounting rule audit findings

The basic condition for regular financial management and operation and the smooth performance of tasks is the orderliness of the accounting. In accordance with its statutory obligation, the SAO assessed compliance with the accounting rules of public finances and, with its findings and recommendations, contributed to the regularity, transparency and accountability of the use of public funds and public property. As part of its final accounts audit, the

State Audit Office of Hungary audited the conformity of budgetary management with accounting rules. It also evaluated the accounting rules during the individual audits of central budgetary institutions and local governments. As in previous years, the irregularities affecting the accounting system were mainly related to the lack of basic accounting rules, irregularities in the exercise of control activities, the lack of record-keeping of commitments and accounting without accounting records.

4. Activities of the SAO for the development and consolidation of the integrity approach

The SAO carried out a wide-ranging activity to strengthen the integrity approach in order to reinforce the protection systems aimed at preventing corruption in 2019. Within the framework of the Integrity Project, it conducted its annual integrity survey with a renewed methodology and published two analyses on it. However, the SAO not only analyses and assesses the establishment and operation of organisational integrity controls that provide protection against the threats of corruption, but also audits these. Integrity being a focus area has for many years been part of the SAO's audits, primarily in the area of internal control, but also appeared as a separate audit topic among the audit topics in 2019. The methodology of the new audits allows for a risk-based evaluation of the most important integrity controls of hundreds of institutions simultaneously, while pointing out system-level deficiencies and strengths. The SAO prepared 9 analyses, which processed the experience of the integrity survey and the findings of the audits related to integrity controls in certain areas, which had been previously assessed as part of thematic audits. One of the special areas of corruption prevention is the enforcement of legal regulations concerning the financial management of political parties and campaign financing and the audit thereof. In recent years, in line with tightening the audit of parties, the State Audit Office of Hungary achieved considerable advances in the field of the supervision of campaign funds and parties. The SAO audited the financial management of the parties in 2019 and completed the statutory audit of the monetary funds spent on the parliamentary election campaign of 2018.

Reinforcement of the integrity approach was supported by other activities of the SAO. Our institution provided trainings on the topic of integrity to the leaders of public sector organisations and integrity consultants, prepared and provided self-tests on its website, organised conferences and professional meetings, and was a guest speaker at several events. The State Audit Office of Hungary was also a key and active member of the international community of state audit institutions and it regularly shared and utilised the best practices in integrity development in 2019.

5. Performance audits

In the case of performance audits, the State Audit Office of Hungary also emphasised the need to measure the social impact of the actions audited in 2019. The most effective measure of the effective use of public funds is the extent to which the stakeholders are satisfied with the measures taken. The purpose of the audits of the State Audit Office of Hungary is not only to ensure the orderliness of public finances, but also to support the development of public services that affect the quality of life of citizens through the evaluation of the operation of public supply systems. Our institution conducted an audit of the emergency medical response system and the system of catering for children. The SAO assessed the task performance of the audited entities on the basis of regularity, propriety and performance criteria, as well as the opinion of the citizens using the supply. These two audits drew attention to the need to evaluate the performance of public service tasks on a regular basis and from several perspectives.



2. Utilisation in the legislation

An overview of the legal framework of the SAO's activity

The legal framework regulating the activity of the State Audit Office of Hungary is elaborated in Annex I.

SUPPORTING THE NATIONAL ASSEMBLY

4

Reports to the National Assembly

9

initiatives for legislative amendments

17

recommendations for bills

11

opinions on legislative and other drafts

2.1. CONTRIBUTION TO THE WORK OF THE NATIONAL ASSEMBLY

The highest level of utilisation of the constitutional function of the SAO as defined in the Fundamental Law is the support of the work of the National Assembly. With its auditing experience and advice the SAO supports the work of the National Assembly, thus making the utilisation of public funds more transparent for the members of parliament and the citizens. In the course of this activity the SAO contributes to high quality legislation which serves the interests of the citizens and the auditing function of the National Assembly over executive powers.

Fulfilling its legal obligations, the State Audit Office of Hungary assesses the state of the central budget and the processes of budget formation and implementation throughout the year, taking into account the role of the President of the SAO in the Fiscal Council. Therefore, the SAO audited the implementation of the 2018 central budget (final accounts) in 2019 and supported the parliamentary adoption of the 2020 central budget with its opinion. With all this, the SAO contributed to the basic activities of the National Assembly controlling executive powers.

In the parliamentary debate on the 2020 budget, it was mentioned that the National Assembly is already discussing and adopting the budget act for the next year at its spring session, when budgetary and macroeconomic figures, data and trends from the previous year are not yet fully available. Therefore, the SAO summarised the economic and budgetary processes in 2018 in a quick analysis, which it sent to all members of parliament, supporting parliamentary decision-making.

In the final accounts debates that have taken place in recent years, it has been stated several times that the State Audit Office of Hungary does not address trends in public property management at the same time as evaluating budgetary and macroeconomic processes. Listening to these suggestions, for the first time in 2019, we carried out an audit of the exercise of proprietary rights related to state property on an annual basis, simultaneously with the audit of the implementation of the budget.

The legislative and control work of the National Assembly was implemented in a number of other ways also:

1. The SAO makes recommendations for the topics indicated in the legislative plan, i.e. it indicates which audit reports and analyses are related to each topic. If the legislative programme contains legislative topics that are relevant to the audit experiences of the auditors, the SAO will send its experiences to the competent ministries during the preparation phase of the bill.
2. The SAO also drafts recommendations for amendments to laws based on its audit experience, contributing to the promotion of quality legislation.
3. It supports certain documents (bills, reports) in general and detailed parliamentary debates with audit information and background materials. The SAO pays particular attention to disseminating audit experiences on the implementation of legal regulations.
4. The SAO sends reports, analyses and studies to the civil servants and members of the National Assembly.

2.2. SUPPORT OF LEGISLATION BASED ON THE AUDIT EXPERIENCES

Within the framework of supporting high-quality legislation serving the interests of citizens, the SAO shares its audit experience related to the application of legal regulations with the actors of legislation in order to provide system-level responses to the identified deficiencies. Within this, during 2019, two amendments to the law should be highlighted, as they represented a significant progress in the use of public funds and public property.

The Act on State Property Management was amended in December 2019, thanks to which the transparency of state property management may improve, in line with the previous recommendation of the SAO. The amendment represents a progress in the regulation of the registration of national assets, as the appointed asset manager will be obliged to register the national assets and provide the necessary data to the practitioner of proprietary rights on the basis of the statutory appointment. Thus, the new provisions on the registration of national assets, such as the enforcement of the guarantee basic principles contained in the Fundamental Law better serve transparent property management.

The National Assembly passed a bill in July 2019 that provides for the establishment of an internal control system for publicly owned—state- and local government-owned—companies as well, which is a significant progress in terms of prevention of corruption. This resulted in the appearance of Government Decree No. 339/2019 (XII. 23.) at the end of the year on the internal control system of publicly-owned business associations. This constitutes a significant progress in the system-level dissemination of the culture of integrity.

The National Assembly gave the State Audit Office of Hungary the task to pay special attention to the fight against corruption. The SAO launched its Integrity Project on this basis, and now there are a number of initiatives included in the Project. The SAO has conducted an integrity survey every year since 2011 to assess the public sector institutions' vulnerability to corruption and the existence of controls meant to handle corruption risks. The ninth survey, taken in September 2019, had 4,002 respondent organisations that are publicly funded or manage public property, which is more than in any previous year.

This shows that public sector organisations in Hungary are committed to use the means of the prevention-based fight against corruption on an organisational level. This also includes the requirement that publicly owned companies shall also establish and operate an internal control system.

Legislative plan

In both the spring and autumn legislation cycles, the SAO recommended reports and analyses on a number of legislative topics, which were published on the website of the National Assembly in each case.

In connection with certain bills, the SAO prepared summaries of its audit experience and sent them to the competent ministry prior to the submission of the bill, so that all of them could be used for the preparation of bills. Of these, our audit experience related to the bill on publicity of companies and company procedure should be highlighted. The SAO found during its audits that the current statutory provisions do not ensure the authenticity of electronically published reports of business associations, which are accessible to everyone.

'Summary reports' provided to the National Assembly

The SAO, as the audit institution of the National Assembly, considers it its task to inform the National Assembly and its committees about the current audit experience of certain organisations when reporting to the National Assembly in order to support the substantiation of their decisions.

In addition, if the National Assembly and their committees put on their agenda a document that the SAO also dealt with in its audits or analyses, the organisation prepares

Enforcement of the decision of the National Assembly

In Decision No. 34/2015 (VII. 7.) of the National Assembly and Decision No. 35/2009 (V. 12.) of the National Assembly, in recent years, the SAO has paid special attention to the widest possible dissemination of the culture of integrity among organisations using public funds and public property. As a result, a law was passed in July 2019 requiring publicly owned business associations to operate an internal control system.



information materials to support responsible decision-making. Accordingly, in 2019, the SAO sent, among others, an information to the Committee on Economics on the experience of the audit of tourism development measures and the experience of its audit in the framework of the 2018 final accounts. The SAO also informed the members of parliament in a letter about the economic and budgetary developments in 2018 by sending a report on it, as well as sent information on the experiences of auditing public finance property management.

Sending reports, analyses and studies to the civil servants and members of the National Assembly

The SAO sends its published reports and analyses electronically to all parliamentary officials and representatives on the day of publication, so their immediate use in the work of the National Assembly is ensured.

2.3. UTILISATION OF THE SYSTEM-LEVEL AUDIT EXPERIENCES

Based on its experience gained during the audits of previous years, the SAO made proposals for the National Assembly in order to develop certain public finance areas and decreasing the risks thereof by summarising and systemising audit experiences.

1. Reinforcing the coordination between lines of defence, greater impact on internal audits

The audit of public finances in Hungary is ensured by a harmonised system of successive levels. The first line of defence consists of the internal control system of each organisation and institution and internal audit; the second line is sectoral, governmental and local government supervision and audit (for example: audits by the Government Control Office and the Hungarian State Treasury, audits by government offices, audits performed at local governments at their institutions); and external independent audit (such as the audit of the SAO) acts as a third line of audit protection.

In its report on its activities in 2017, the State Audit Office of Hungary suggested, based on its audit findings, that in order to eliminate the identified deficiencies, it would be worthwhile to give the auditors' findings a greater impact on the internal audit of individual organisations—thereby increasing their efficiency and effectiveness. Furthermore, the SAO raised the issue of strengthening coordination between the three lines of defence of the public finance audit system.

Therefore, Item 2 of Decision No. 22/2018 (X.16.) of the National Assembly that accepts the report of the SAO on 2017 states that 'The National Assembly strengthens the transparency of public finances and the responsible management of national assets provided for in the Fundamental Law by supporting the recommendation of the report of the State Audit Office of Hungary on 2017 that in order to eliminate the deficiencies identified by the State Audit Office of Hungary, the SAO shall have a bigger influence on internal audit in order to increase its effectiveness.'

In September 2019, an Inter-Ministerial Committee for Government Relations with the State Audit Office of Hungary was established, which supports the implementation of the parliamentary decisions and contributes to the strengthening of the SAO's utilisation objectives and the development of the public finance control system.

2. Strengthening the regulatory environment for public investments

The SAO addressed a recommendation to strengthen the project management of the national and local government investments and regulatory environment in its report on the 2017 activities. The basis of the recommendation was the relevant decision of the National Assembly in 2015, which required the SAO to systematically map out the risks associated with major investments to learn about the international experience in the regulation and auditing of this field.

A specific realisation of this recommendation was the acceptance of bill Act CXXXVIII of 2018 on the implementation of civil construction state investments, even the President of the SAO also spoke during the general debate of this law. The law established the 100%

state-owned public Investment Agency, whose transparent, accountable operation in compliance with integrity requirements is ensured by law. The Investment Agency started operating on 1 January 2019. The law can make a significant contribution to the regulation of the entire process of civil construction state investments, and to the preparation and implementation of all public investments with high professional and transparency requirements.

3. The importance of provisioning in the budget

In its 2017 report, the SAO suggested that it is worthwhile to strive for provisioning in budgetary processes, thus reducing the vulnerability of public finances during a subsequent, possible recession.

The available provision in the budget laws of recent years have been increasing, which meant flexibility and security in the implementation and planning of the budget. It was especially significant in 2020 (the 2020 budget was planned and drafted in 2019). In the 2020 Budget Act, HUF 300 billion could be used immediately to fund the most urgent measures, there was an opportunity to reallocate significant amounts, which could contribute to the management of budgetary risks.

4. Digitisation

The SAO proposed already in its 2017 report that parts of e-governance be expanded to the SAO to reduce bureaucracy. The National Assembly of Hungary acknowledged in a decision upon accepting the reports on 2018 in 2019, the efforts of the State Audit Office of Hungary in 2018 to facilitate transition to a digital audit environment. Furthermore, the National Assembly supported all other activities of the SAO to promote the provision of data from an authentic source as a result of digital data processing, and the authenticity and appropriateness of audited entities' data provision and reporting in compliance with the legislative provisions.

The technological improvements of the SAO are elaborated in a dedicated chapter of this report.

5. Application of new audit technologies

In its report on 2018 the SAO stipulated that in order to increase efficiency, it reviewed the methodology and practice of the audits and on the basis of this it considers the methodology of the risk-based approach to have major significance. In this regard, we also suggested that the application of a risk-based methodology may be applied during audits.

In 2019, the State Audit Office of Hungary performed several audits (for example, in hospitals and libraries) taking this into account, using a risk-based audit method.

Risk-based audits provide an opportunity for the SAO, by evaluating pivotal documents, to obtain a picture of the risk areas at a wide range or certain groups of auditees (by segmenting them on the basis of the same characteristics). This allows the attention of the managers of the audited entities to be directed to risky areas, creating an opportunity to manage the risks as well.

The new audit approach allows the State Audit Office of Hungary to assess the essential areas of responsible financial management, accountability and transparency simultaneously at several audited entities. All this contributes to the increasing number of audited entities, the general improvement of the public finance situation and accountability.

6. 'SAO proposals' provide responses to comprehensive and substantial requests for change

In addition to the highlighted topics, the SAO has also raised a number of other topics in recent years, which still have current content that develops the Hungarian public finance system. Therefore, the SAO considers the following factors important:

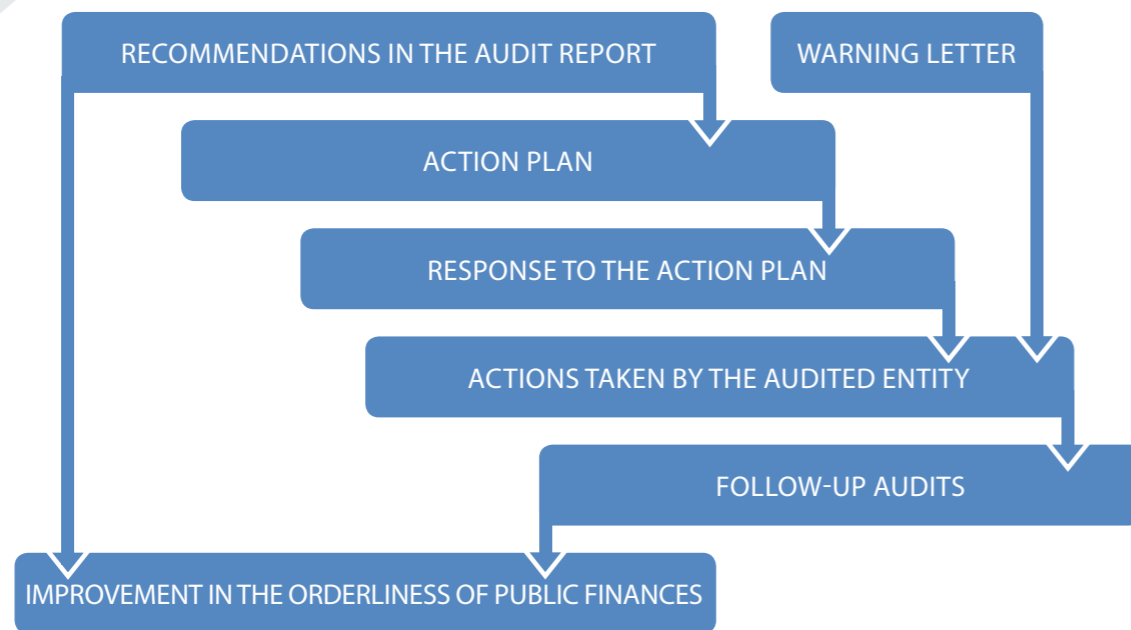
- preventing the re-indebtedness of local governments, including restricting local government investment activities,



- rethinking the system of municipal debt settlement procedures in order to have a real solution for dealing with municipal ‘bankruptcy’,
- rethinking the powers of public finance management in order to reduce unnecessary bureaucracy and enforce management responsibilities,
- the development of state property auditing, and
- rethinking the disclosure and release of public interest data in the light of integrity considerations and in order to reduce unnecessary bureaucracy.

3. Utilisation by entities using public funds

THE PROCESS OF THE UTILISATION OF THE WORK OF THE STATE AUDIT OFFICE OF HUNGARY AT AUDITED ENTITIES



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

Recommendations based on findings with obligations to take action

The quality management system of the SAO guarantees that the audit findings are based on objective facts, and that they are correct from a professional and legal point of view.

The audit findings may be commented on by the leader of the audited entity pursuant to the provisions of law within 15 days of the receipt of the draft report. The management of the comments is included by the SAO in the state audit report in a manner specified by law, and reasons are given for non-acceptance.

The leader of the audited entity must prepare an action plan for the findings included in

the reports in order to eliminate the irregularities and deficiencies, and the SAO will evaluate the acceptability of the action plan. The SAO may verify the fulfilment of the tasks contained in the action plan within the framework of a follow-up audit.

Providing opinion on action plans based on uniform criteria

The monitoring of the utilisation of the recommendations made in the findings requiring actions by the SAO helps the regular, economical and effective use and utilisation of public funds and public property.

The SAO made 1,414 recommendations to 286 recipients in connection with the audit findings to the leaders of the audited entities in the audit reports of the State Audit Office of Hungary published in 2019. For the execution and utilisation of the recommendations made in the reports, the head of the audited entities is obliged to make an action plan and to send it to the SAO. 243 action plans were received by the SAO in 2019. By implementing the action plan, the audited entities take steps to eliminate the errors and deficiencies existing in their financial management, which contributes to the improvement of the transparency and accountability of the use of public funds.

During the two-level review of the action plan sent by the audited entity, the supervisory manager assesses compliance on the basis of a uniform system of criteria and aspects.

The compliance of the tasks required in the action plans, the fact of resending the action plans for supplementing, and the number of supplements may provide a basis for revealing the risks related to the audited entity, which may be utilised when planning the follow-up audits.

Warning letters

The President of the SAO sent 202 warning letters in relation to the state audit reports to the leaders of the audited entities. In these letters the SAO typically called the leaders of the audited entities to cease the unlawful practice revealed in the audits and to comply with provisions of law. Audited entities are required to take measures to eliminate the situation outlined in the warning letter.

3.2. FOLLOW-UP AUDITS

Follow-up audits can be used to assess whether the audited entity has used the opportunity for improvement called for during the SAO’s audit, whether its measures have improved the regularity of use of public funds, the regular and responsible management of public funds and national assets, and the proper fulfilment of accounting and reporting obligations, as well as the establishment of integrity controls to manage corruption risks and the enforcement of integrity. The follow-up audits of the SAO can reveal whether the errors and deficiencies identified during the audit of the management of public funds and public property have been abolished, whether the protection of public funds and national assets have been realised.

The objective of the follow-up audit is to evaluate whether the audited entity have implemented the tasks that were determined in the action plan prepared on the basis of the former SAO findings requiring actions, included in the audit report.

The SAO performed 33 follow-up audits in 2019, which mainly included follow-up audits performed at local governments (57.6%). Out of the 19 local governments, the follow-up audit was performed at 14 (73.6%) to check the establishment and operation of the internal control system, at two (10.5%) to check the adequacy of financial and property management, and at three (15.8%) it was aimed at the follow-up of its debt settlement procedure. In addition, the SAO carried out the follow-up audit of the public task performance of six majority local government–owned business associations (18.2%), the task performance and property management of four national park directorates (12.1%), the financial and property management of three secondary vocational schools within the institutions of the central subsystem (9.1%), as well as the restructuring of the research institute network of the Hungarian Academy of Sciences, the financial management and

RECOM-
MENDATIONS,
OPINIONS DELIVERED
TO THE AUDITEES

1,414 Recommendations

202 Warning letters

243 Action plans

1,362 Audited entities

What is a warning letter?

Based on the SAO Act, the President of the SAO may send a warning letter to the leader of the audited entity to cease the unlawful practice, or the misuse or wasteful use of the state property, if the legal regulation does not provide for the application of a more severe legal consequence. The leader of the entity is obliged to judge the provisions of the warning letter within fifteen days, at the next meeting of the collegiate body, and to take adequate measures and notify the President of the SAO of this act.

task performance of certain priority research institutes.

In the course of its follow-up audits the SAO found that two thirds of the audited entities had taken the necessary measures in order to ensure the regular use of public funds and public property by implementing the tasks specified in the action plans prepared for the utilisation of the recommendations related to the audit findings of the SAO's reports; therefore, they lowered the risk in the area of regularity to the greatest extent.

3.3. RISK WARNINGS OF THE SAO'S AUDITS, INITIATION OF PROCEEDINGS

The legal consequence system of state audits was strengthened by the Fundamental Law, and its first cardinal act, the SAO Act created in 2011. Therefore, the period of audits without consequences was definitely over in Hungary in 2011. The State Audit Office of Hungary has extensive tools to make an impact on the auditees for the realisation of the economical and regular use of public funds.

If the further investigation—beyond the audit—of the circumstances identified by the audit seems to be justified, the SAO, based on its legislative authorisation, forwards the circumstances identified by the audit to the competent body so that the necessary measures can be taken and proceedings can be conducted. Furthermore, if the SAO during the audit activity establishes the suspicion of a criminal offence, it shall notify the competent authority of the findings pursuant to Section 30(1) of the SAO Act.

In 2019, the SAO sent requests to the prosecutor's office, the National Tax and Customs Administration, the Hungarian State Treasury, the Government Offices and the Public Procurement Arbitration Board.

The majority of the warnings sent to the authorities related to the absence of accounting rules, the non-compliance of accounting records, the absence of inventory preparation and an inventory, deficiencies in the records of financial management powers and the non-compliance of the records related to the use of subsidies. The majority of the suspicions of criminal offences related to causing pecuniary loss; furthermore, the SAO reported suspicions related to the breach of obligation to cooperate and the use of forged private documents.

In 2019, the SAO sent notifications due to public procurement irregularities in 18 cases, thus contributing to the promotion of the lawful execution of public procurements and the transparency of the spending of public funds.

Initiation of the suspension of budget support disbursement

If the audit reveals misuse or wasteful use, or damage caused by the serious infringement of the rules applicable to the management of funds by the audited entity, or establishes the threat thereof, or the audited entity does not comply with its obligation to cooperate, the State Audit Office of Hungary may initiate the disbursement of budget support in order to prevent or mitigate the damage, and to enforce the cooperation of the auditee.

This tool is applied when it could no longer be enforced that public funds and public property are used in a regular manner and in compliance with the law by using any other tool.

In 2019, the State Audit Office of Hungary made use of this option 14 times, alongside the enforcement of the principle of gradual approach; two of these cases are pending.

The rate of the suspended budget support was adjusted to the gravity of the irregularity underlying the measure, and the effectiveness thereof.

4. The areas of societal and academic utilisation

4.1. SOCIETAL UTILISATION

The State Audit Office of Hungary managed to fulfil its guarantor of public finances role as defined in the Fundamental Law in 2019 as well; that is, the audits, analyses and the extensive share of knowledge performed by the SAO contributed to the improvement of public finances. By carrying out its broad and innovative knowledge-sharing activity, the SAO utilised the results and experience of the audit work both at domestic and international level; furthermore, it continued to place a strong emphasis on transparency and open, prevention-based communication.

Informing the public

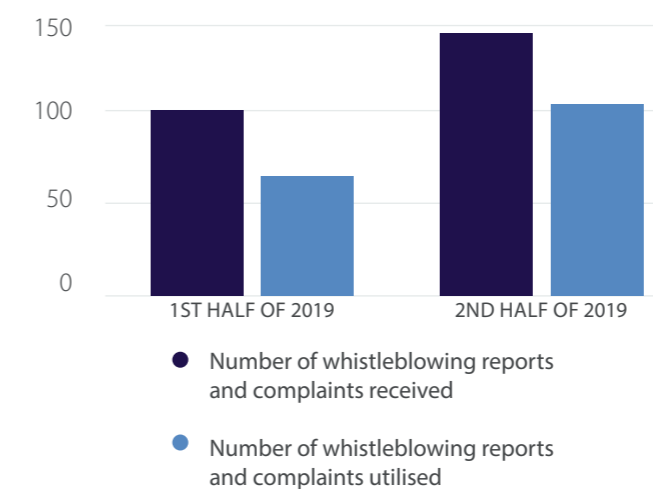
The State Audit Office of Hungary endeavoured to focus its communication on the relevant and current audit events of public interest in 2019 as well.

70 thousand unique users read the approximately 1,900 Hungarian articles on the SAO News Portal in 2019. This is an approximately 16 percent increase in traffic as compared to the previous year. Now almost half of the readers use a smart device to browse the SAO website which ensures full transparency of the SAO's work. The two-thirds increase in video content and 50 percent increase in the number of photo essays published make sure that the SAO can live up to the challenges of digitisation.

Utilisation of complaints of public interest

In 2019, the State Audit Office of Hungary received notifications and complaints 238 times concerning the property management of the state and local governments, business associations owned by the state or local governments, the financial management of health care and educational institutions and the audit of political parties receiving state subsidy.

TRENDS IN THE NUMBER OF WHISTLEBLOWING REPORTS AND COMPLAINTS RECEIVED AND UTILISED BY THE STATE AUDIT OFFICE OF HUNGARY IN 2019



The whistleblowing reports that also raised the suspicion of a criminal offence were forwarded by the State Audit Office of Hungary to the competent criminal investigation authorities in accordance with the provisions of the Complaint Act, with the consent of the whistleblower, where necessary. The SAO evaluated the areas mentioned in the whistleblowing reports and utilised them in its audits.

SHARING KNOWLEDGE WITH THE PROFESSIONAL PUBLIC AND THE GENERAL PUBLIC IN NUMBERS

- 37 Talks given by the SAO's employees
- 18 Conferences, seminars held by the SAO
- 20 consultations, exchanges of experience with domestic and international organisations

ACADEMIC UTILISATION IN NUMBERS

- 1 book publication
- 15 publications in specialised journals
- 2 integrity methodology analyses
- 6 conference volumes, lectures

4.2. SHARING KNOWLEDGE WITH THE PROFESSIONAL PUBLIC AND THE GENERAL PUBLIC

A flagship mission of the SAO is to support potential auditees based on its auditing experience within the framework of its statutory advisory activity. In addition to analyses, the SAO shares its experience at conferences, seminars, knowledge-sharing cooperation and projects as well as trainings and self-tests with the wider professional public.

The work of the State Audit Office of Hungary can become useful for society as a whole if not only the citizens but also the professional-academic community familiarises itself with the results and experience of the organisation's activity, and utilises them in their day-to-day work. For this reason, the SAO has paid particular attention to knowledge-sharing programmes and cooperation ever since its establishment. The objective of the events organised, the talks given, and the professional-academic essays published is to share best practices, to support organisations using public funds, decision-makers and research groups to facilitate the development of the practice and discipline of public financial management.

Knowledge sharing at conferences and seminars

One of the statutory duties of the State Audit Office of Hungary is to support the audited entities within the framework of its advisory activities. The SAO also contributes to the transfer of expertise and experience with cooperation agreements, consultations and participation in common projects.

Professional-academic cooperation, training programmes

The SAO has several initiatives in higher education for leaders committed to the ethical use of public funds, the latest being the renewed and deepened partnership with the National University of Public Service.

In order to ensure the professional-academic utilisation of the SAO's work, it shared the audit, research and analysis experiences gained in the areas of greatest relevance to the society, which are in the focus of the public's attention. In 2019, it published 17 academic papers, written by its own authors, in prestigious specialised journals, among others in the Public Finance Quarterly, Civic Review Journal of Economic and Social Sciences and Review of Sociology, as well in the journals of the higher education institutions cooperating with the SAO, such as the journals of the University of Miskolc, University of Sopron and Budapest Metropolitan University. The published articles covered the topics of public sector management and management science, public financial management, fiscal policies, public administration and public services, as well as the scientific credibility of international rankings. Furthermore, the SAO collaborated in the publication of textbooks and collections of essays, and supported the utilisation of the SAO's knowledge at national and international level by giving academic lectures.

Publication of the Public Finance Quarterly journal

The renewed journal specialised in public finance, looking back at traditions of half a century, with expanding content, permanent order of columns, modern typography and an impact factor (i.e. indicator measuring the citations of the periodical) is published by the State Audit Office of Hungary in both Hungarian and English language in the same volume, on a quarterly basis. The Public Finance Quarterly pursues the primary goal of providing a credible picture on the financial systems, the main features of the operations of public sector and national economy, the efforts to catch up with economically developed countries and build future and on the related professional debates in the light of the most important financial connections.

Over time, the periodical has become the leading journal of Hungarian economic science. The scientific standard of the journal is clearly shown by the fact that in 2019 this journal of economic science had the highest citation index (indicating how many times the articles published in the journal had been cited in other academic works) in Hungary. In 2019, the Public Finance Quarterly was included in SCOPUS, the world's largest and best-known database of peer-reviewed literature.

The issues focused on the following topics:

- 2019/1: Successes and risks in the Hungarian economy
- 2019/2: Subjective aspects of finances
- 2019/3: The quality of ratings
- 2019/4: Impacts of distribution systems

Public Finance Quarterly strives to achieve that the academic results published in the periodical can be utilised as much as possible and that such results can support the improvement of the citizens' financial awareness, the dissemination of financial literacy, the substantiation of the decisions of finances and economic policy; thus, they can contribute to the transparency and accountability of public finances and the stability of public finances. Public Finance Quarterly serves the purpose of creating the 'well-managed state' with all these efforts.

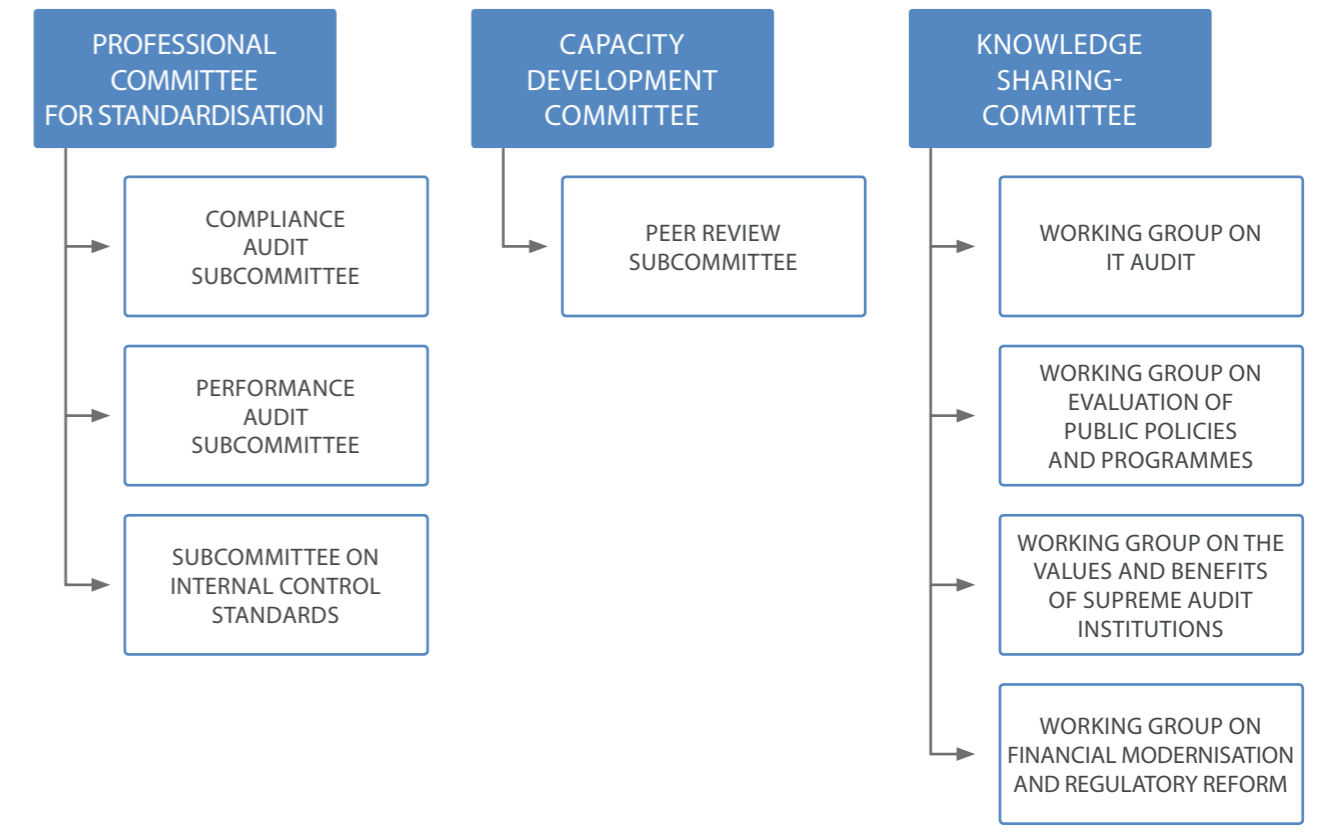
International knowledge sharing

The SAO continuously develops its bilateral and multilateral relationships; it has been a member of the International Organisation of Supreme Audit Institutions (INTOSAI) since 1968. The SAO participates in the work of several subcommittees and working groups within the INTOSAI in order to ensure a more efficient knowledge transfer and collection of information.

Keeping in touch with partner state audit institutions is indispensable for the State Audit Office of Hungary, since as the sole supreme audit institution in the country and the primary financial-economic audit organisation of the National Assembly, it can exchange experience and knowledge only with other supreme audit institutions to be able to perform its tasks arising from legislative authorisation more efficiently.

Decision of the National Assembly related to international activity
Decision No. 41/2013 (V. 27.) of the National Assembly supports the SAO's participation in the activity of the Development Initiative of the International Organisation of Supreme Audit Institutions (INTOSAI).

PARTICIPATION OF THE STATE AUDIT OFFICE OF HUNGARY IN THE SUBCOMMITTEES AND WORKING GROUPS OF INTOSAI



The SAO is an active member of EUROSAI, and as such it led the working group compiling the Guidelines presenting good practices related to the quality of audits between 2008 and 2011, and has been operating the Quality Management Good Practices database on its own English language website since 2011. The SAO started the process of making the database interactive in 2019. The database, which is now renewed in terms of content and visuals after the update, contains English language forms presenting 16 domestic and 30 foreign good practices on quality management.

Within the framework of a project group the State Audit Office of Hungary conducts electronic surveys regarding the topic of quality management, the aim of which is to collect first-hand, up-to-date, structured and comparable information on the quality management practice of EUROSAI members, as well as to publish the results of the surveys in summary leaflets and make such leaflets available to the EUROSAI community, thus sharing the gained knowledge and experiences.

The SAO's international activity, its membership and active participation in the INTOSAI and EUROSAI working groups contributes to the social benefits of the State Audit Office of Hungary. The SAO's international relationships and engagements ensure the bilateral flow of knowledge, and the experiences thus gained and transferred are incorporated into the audit work at both domestic and international level.

4.3. THE SAO'S ADVISORY ACTIVITY

One of the statutory duties of the State Audit Office of Hungary is to facilitate the good governance of the state. To this end, the SAO also prepares analyses in addition to the audit reports. In its analyses, the SAO highlights connections and impacts, draws attention to dilemmas and risks in the given area, and presents results achieved. As part of its advisory activity, the State Audit Office of Hungary published 32 analyses in 2019.

In order to widely disseminate integrity culture, over the last years, the greatest proportion of the SAO's analyses was related to integrity, the analysis and examination of integrity problems. As a result of the above the advisory activity of the SAO prevailed to a large extent in the topic of integrity (for example, different trainings, international knowledge sharing), the majority of the SAO analyses now focuses on new areas (of course, this does not mean neglecting, ignoring the old areas).

The State Audit Office of Hungary also prepares analyses which evaluate the comprehensive auditing experience of several organisations operating in the same sector. These analyses demonstrate the irregularities and other risks hidden in the activities of the entities operating in the sector and audited based on the risk analyses of the SAO, which allows the SAO to draw the attention of the other organisations operating in the given sector to potential risks which have already been discovered in case of other organisations. This method results in a self-generating circle: the summary analyses building upon the audit experiences may highlight new audit areas of risk, and the audit experiences gained in such areas can be summarised again in the form of a new analysis.

The SAO primarily strives to harmonise its audits founded on risk analysis with its intention to probe into the exemplary or defining organisations with greater weight in case of the different sectors, as this allows it to reach a broader utilisation in terms of the entirety of the sector; therefore, it can contribute to the improvement of the economic competitiveness of the sector to a greater extent.

Contribution of the SAO to economic competitiveness

In the financial management and operation of public finances, creating an equilibrium in the financial situation, keeping the trends of public debt on a sustainable track, and promoting economic competitiveness are crucial. Therefore, the SAO has dedicated particular attention to the audit and analysis of these areas in recent years.

With its audits and analyses the State Audit Office of Hungary also focuses on the objective factors defining the competitiveness of the country. The basic requirements influencing Hungary's competitiveness the most, including the trends of public debt and deficit, were laid down in the Fundamental Law. The Fundamental Law sets out that as long as the public debt exceeds 50% of the GDP, the debt-to-GDP ratio (debt ratio) must continuously be improved. The Stability Act determines the concept of public debt and the rate of the decrease (public debt rule). The requirements of transparency, lawfulness, expediency and effectiveness as defined in the Fundamental Law must be observed by each economic organisation managing public funds and public property.

The improvement of sustainable economic growth may show correlation with the endeavours to guarantee the regularity of financial management and with the intent to stabilise the financial situation following the audits.



4.4. PUBLIC SECTOR MANAGEMENT, RESPONSIBLE MANAGERIAL CONDUCT

One of the purposes of the advisory activity pursued by the State Audit Office of Hungary—confirmed by the National Assembly, too—is to share knowledge, to disseminate 'good practices', to support the ethical management of public funds by providing different trainings, and to improve public finance knowledge and leadership skills among the organisations of the public finance system. To this effect, the SAO strives to cooperate with the other constitutional institutions and with higher education institutions.

The well-managed state is a public interest that implies the setting up and operation of a performance evaluation system that enhances the organisation's performance and contributes to exploitation of the opportunities for development. The purpose of the advisory activity of the SAO is knowledge sharing, disseminating 'good practices', supporting an ethical public financial management, and developing public finance and leadership skills among the organisations of the public finance system. To this end, the SAO established a common institute department with the Faculty of Economics of the University of Miskolc on 1 February 2016.

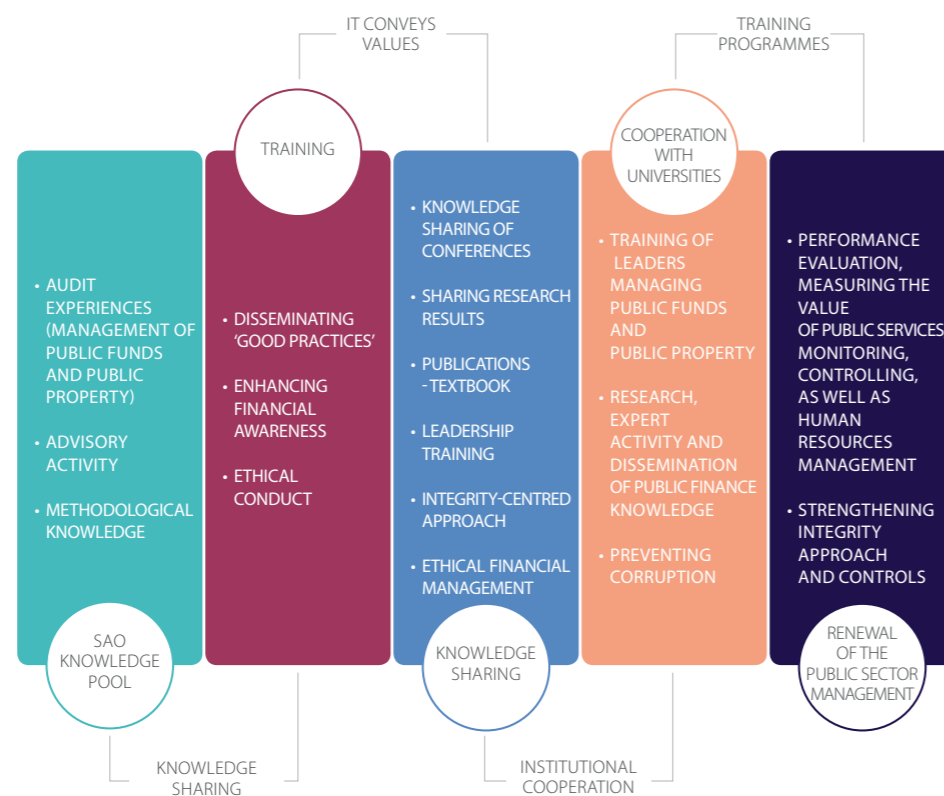
Within the framework of the common department the students of three years obtained a specialised qualification in the public services performance analysis training, then in September 2019—after the registration of a new training specialisation—the public services management training also started.

Related decision of the National Assembly
Decision No. 34/2015 (VII. 7.) of the National Assembly
on the development of the SAO's advisory activity related to management systems and the support of ethical public finance manager training

In addition to the university-based trainings, in 2017 the SAO started its 50 hours' manager training programme as a further utilisation of the provisions of the cooperation agreement, where the senior managers of organisations were provided with the opportunity to familiarise themselves with the methods of responsible and integrity-based use of public funds. Since the beginning of the training, the directors of museums, two groups of the managers of child protection and social institutions, the managers of local governments-owned, then those of state-owned business associations, the managers of health care clinics, and in 2019 the managers of publicly owned business associations, the managers of further local government-owned business associations, the managers of minority local government-owned business associations and finally the managers of hospitals have participated in the programme. The series of trainings continues in 2020 as well.

The SAO has also entered into a cooperation agreement with the National University of Public Service (regarding the introduction of a subject on change management).

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



II. EXPERIENCES OF AUDITS AND ANALYSES

1. The conclusions of analyses evaluating budget and macroeconomic processes

It was in 1870, i.e. 150 years ago, that the National Assembly of Hungary adopted the Act on the Royal State Audit Office of Hungary, which specified the audit of the state's final accounts as the core task of the new institution. The Fundamental Law of Hungary still lays down the audit of the execution of the central budget as the number one task of the State Audit Office of Hungary. This is self-evident, as this allowed the SAO to provide a substantiated evaluation for each relevant area of the final accounts, and to establish that the data of the revenue received and expenditure shown in the bill on the 2018 final accounts were reliable.

In addition to establishing that the 2018 central budget was executed in accordance with the legislative provisions, and the deficit and the public debt evolved in line with the statutory requirements, the SAO evaluated in a separate analysis the budget and macroeconomic processes substantiating the achievement of the budgetary objectives. The SAO has prepared an analysis of the background of the final accounts in each year since 2015, as it can only fulfil its advisory function set out by law if it not only delivers an opinion on the authenticity of the figures of the final accounts, but also reveals the processes behind the figures, which go beyond the given year, to provide the National Assembly with better information. The 'Analysis related to the audit of the final accounts on the macroeconomic connections of the 2018 budget processes', prepared in 2019, exposed several connections which substantially reduced the vulnerability of the Hungarian public finances, and thus that of the whole country:

- The proportion of foreign currency debt within the structure of public debt decreased substantially, moderating the foreign exchange risk; the role played by the population in the financing of public debt increased significantly, reducing dependence on foreign investors.
- Over the last few years—in line with the initiatives of the Fiscal Council and the State Audit Office of Hungary—a secure and flexible system was created for the establishment and use of budget reserves that rendered intra-year amendments to the budget unnecessary, and, on the other hand, the interim release and use of the reserves contributed to greater economic growth.
- The central budget advanced European Union revenues worth several thousand billion Hungarian forints, which accelerated the developments, allowed a faster drawdown of EU funds and created significant reserves for the following years, as the reimbursement of the advanced funds by the EU will reduce the Hungarian public debt in the years to come.

The analysis highlighted that not only did economic growth further continue to accelerate in 2018 compared to the previous year, but it also became balanced, which means that the expansion of household consumption, investments and export—especially the export of services—equally played a role in this trend. The added value of services, the in-

crease in industrial production volume greatly contributed to GDP growth, thanks especially to the vehicle and manufacturing industry. The construction industry also achieved a significant growth through high inclination to invest and public investments.

Despite the numerous beneficial processes, some risks suggesting the slowdown of economic growth emerged in 2018. The SAO's analysis identified the continuous rise in inflation, the slow decrease in the number of building permits issued, the reduction in external trade surplus, which was caused by the growth rate of import exceeding export, as such risks.

The growth of the GDP contributed to the increase in the tax, contribution and other revenues of the budget, and these usually exceeded the estimated values. The total revenue of the central budget exceeded estimates by 8.3%. Within that, the most important direct tax and duty revenues in 2018 exceeded the 2018 appropriations by over HUF 300 bn. The measures to the economy greatly contributed to this result. These measures included the introduction of online invoicing, the extension of the scope of tax returns prepared by the tax authority, the expansion the opportunities for simplified taxation for enterprises, and further reductions of contributions (mostly the social contribution tax). All this contributed to the GDP growth, as well as to compliance with rules regarding the trends of deficit and public debt.

VAT should be specifically mentioned, as this tax plays a key role in fiscal policy and the financing of public tasks, as well as in economic policy, the decisions of market players and the activity of different audit organisations, too. The public finances' highest tax revenue derives from VAT; therefore, the trends of VAT revenues, in which the effectiveness of the tax authority's task performance also plays a role in addition to economic policy and taxation policy measures, is an issue that influences the stability of the central budget. According to a study by the European Commission published in October 2017, tax evasion in Hungary in 2015 was half of that in the other countries in the region, the tax gap was 13.7 percent, while the regional average was 25.5 percent.

The SAO examined the question of tax reduction and whitening in the case of VAT in a separate analysis. The analysis entitled 'The effects of the reduction of value added tax on the process of sustainable whitening' discusses the impacts of VAT reduction measures on the budget, and presents extent to which the objectives set during VAT reduction were achieved, then evaluates how sustainably these measures contributed to the whitening of the economy. Black economy strongly characterises the food industry and the agricultural sector: budget frauds and tax evasion are quite widespread in the sector; therefore, one of the goals of the reduction of VAT rate was to whiten economic processes in certain production sectors, and to decrease the number of circumventions of taxation rules and budget frauds. In recent years, measures to reduce VAT rates were taken in order to stimulate the market, expand consumption, to catch up certain sectors and improve their competitiveness.

The analysis highlighted that in case of about half of the analysed products and services the impact of VAT reduction did not, or did not fully, appear in the prices. The limited impacts of VAT reduction resulted from the fact that the trends in the prices were essentially determined by other economic and production factors over the analysed period. Sales and consumption grew in case of the majority of food products in the analysed period, which primarily resulted from the increase of earnings, but in the case of some products a link with VAT reduction measures can be established. In the year of the introduction of VAT reduction, poultry and pig meat consumption increased significantly, while in the case of other food products, the growth in sales and consumption could not be linked to VAT reduction.

The number of built and sold flats increased after the reduction of the VAT rate on new flats, but given that the housing market boost had already started before the VAT reduction, the growth in sales cannot be directly linked to the reduction of VAT rate.

The expected impact of the reduction of VAT on restaurant consumption, that is, the wage development of workers in the sector and the mitigation of labour shortage, was successful only to a limited extent.

As a result of VAT reduction (in case of the unchanged or decreasing sales of products and services) the lost tax amounts must be taken into consideration in the central budget. The impact of this can only be compensated by such a degree of increase in sales (use and

consumption) that ensures the same amount of tax revenue as before, even in case of lower tax rates. The analysis pointed out that although the sales of the majority of products and services affected by the VAT reduction increased in the analysed period (2014–2018) as a whole, the volume of sales growth was not able to compensate the lost VAT revenue in the analysed years, the rate of the VAT revenues collected on the sales of such products remained well below the previous level. In case of certain food products VAT reduction measures contributed to the whitening of the economy over the analysed period, but not in a sustainable manner, that is, they did not create an opportunity for further tax reduction.

The State Audit Office of Hungary has two powers regarding the budget which other supreme audit institutions usually do not have. The first is that the SAO provides an opinion on the substantiation of the budget appropriation bill to the National Assembly. The SAO developed and published a methodology, based on solid professional basis, for delivering opinion on the substantiation of budgetary appropriations. By using this methodology, the SAO can quantify the risk of the under- or overachievement of the planned appropriations, and compares the risk thus summarised with the planned reserves of the budget. If they provide coverage for the management of the realistically emerging risks, then the SAO does not consider the fulfilment of the debt rule problematic, and if the reserves are not sufficient, then it initiates the raise thereof. This is important because this way the issue of provisioning became the focus of the opinion on the budget appropriation bill. Adequate provisioning is able to simultaneously ensure the predictability and flexibility of budgetary management. It is the reserves that create the opportunity to cease intra-annual restrictive measures (cuts, blocking), i.e. budgetary 'military management'.

One of the other unique mandates of the SAO is linked to the fact that the President of the SAO is ex officio a member of the Fiscal Council. In this context, it is the statutory obligation of the SAO to assist with its analyses the Fiscal Council to perform its tasks. In order to execute this provision of the SAO Act, the SAO needed to create a new analysis genre. The two essential characteristics of this type of analysis are that they relate to the SAO's auditing function and facilitate the operation of the well-managed state in the field of the budget.

The SAO's analyses prepared to the Fiscal Council and facilitating the provision of an opinion on the budget are fully based on the audit evidence collected and processed during the SAO's audit; therefore, they are more reliable than any statistical data provision or scientific estimates. The SAO had substantiated its own opinion on the budget appropriation bill with an audit previously as well. In order to fulfil its function as fiscal advisor it extended its audit substantiating the provision of an opinion on the budget in even two directions, that is, it begins the audit earlier and finishes it later. The earlier start allows it to collect audit evidence for the analysis of the budget appropriation bill. Furthermore, finishing later allows the SAO to primarily audit whether the ministry responsible for public finances substantiated its decisions with calculations and impact assessments when it supported amendment proposals on behalf of the Government. This new role of the SAO is important from the perspective of the well-managed state, because the SAO continuously conducts audits which relate to certain appropriations of the central budget. For example, the SAO obtains information of relevance also to providing an opinion on the budget bill through the audit of the National Tax and Customs Administration in connection with tax revenue appropriations, and through the audit of the Government Debt Managing Agency in connection with debt administration appropriations. Such information is regularly integrated into the analyses that the SAO prepares in order to help the work of the Fiscal Council and also sends to the leaders of the competent public bodies.

Thanks to the disciplined budget policy and the dynamic economic growth, it was no longer a relevant question in 2019 as to whether the public debt rule was complied with in that year, as no serious risk threatened this in the short term; the question rather was as to whether the continuous reduction of the public debt ratio is sustainable or not in longer term. As a result, the analyses of the SAO focused on longer-term sustainability.

Based on the examination going back several years of the trends of 9 groups of factors and a total of 27 factors affecting public debt and GDP, the analysis entitled 'On the sustainability of public debt reduction' established that 15 of such factors supported the permanent moderation of the public debt ratio, and there were only two factors whose trends carried a negative risk in terms of the continuous compliance with the public debt rule.

What does the concept of 'sustainable whitening' mean?

The concept of 'sustainable whitening' was introduced into public discourse by the SAO. The essence of this concept is that the state leaves the surpluses arising from taxation measures to whiten the economy with the taxpayers in the form of smaller tax rates or targeted allowances, and through smaller tax rates the economy can whiten further. In 2018, the 'sustainable whitening' of the economy continued further, as the whitening of the economy allowed tax revenues to be increased, while there was no need to increase tax rates; what is more, it was possible to even reduce certain tax rates. This increased the competitiveness of the enterprises and left more income in the private sector and at families.

The SAO considers the facilitation of compliance with the public debt rule as a top priority during both its audits and advisory activity

In case of the audits this means that the areas whose financial management and operation directly influences the trends of public debt are given priority when the audit topics are selected, and in their case one of the focus areas of the audit is precisely the identification of the impact on public debt and the establishment of the regularity and reliability of the related data provision. Impact on public debt carries significant weight also when the analysis topics are selected; however, the analyses also cover the denominator of the debt ratio, that is, the determining factors for the trends of the GDP.

NAME OF GROUP OF FACTORS	RATING OF GROUP OF FACTORS	SUSTAINABILITY FACTOR	QUALITATIVE FACTOR	QUANTITATIVE FACTOR
BUDGET DEFICIT	Stable	Stable	Stable	Negative
PUBLIC DEBT MANAGEMENT – DEBT DENOMINATED IN FOREIGN CURRENCY	Positive	Positive	Stable	Positive
PUBLIC DEBT MANAGEMENT – DEBT DENOMINATED IN HUNGARIAN FORINTS	Stable	Stable	Stable	Stable
COMPETITIVENESS – EXTERNAL	Positive	Stable	Positive	Positive
COMPETITIVENESS – INTERNAL	Stable	Stable	Negative	Positive
DEVELOPMENT	Stable	Positive	Stable	Stable
EMPLOYMENT	Positive	Positive	Positive	Positive
CONSUMPTION	Positive	Positive	Positive	Positive
SOCIO-ECONOMIC SUSTAINABILITY	Positive	Positive	Positive	Positive

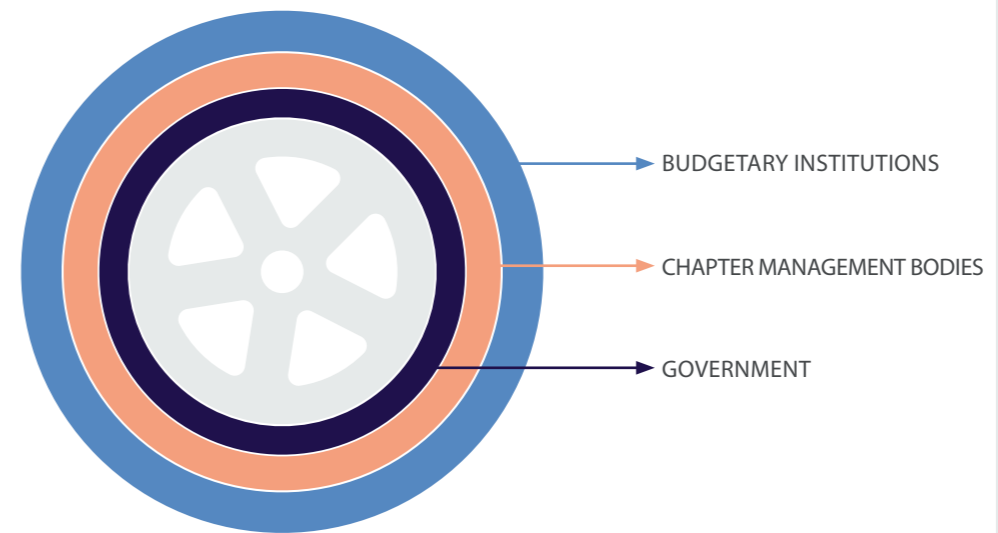
What does resilience mean?

In a generic sense, resilience means the capability of flexible resistance, that is, the ability of a system to successfully adapt to powerful, repetitive or even shock-like external effects. The flexibility of budget execution expresses how much freedom of action the bodies responsible for the execution of the Hungarian central budget have in terms of reacting expediently to the different evolution of budget revenues from what was originally planned, and the changes affecting the expenditures without trespassing the legal boundaries. Otherwise, resilience serves the purpose of managing budget risks.

The analysis concluded that the continuous decrease of the public debt indicator was a result of the dynamic GDP growth in the period concerned, with a moderate increase in public debt. The positive rating of four of the five groups of factors that affect the GDP indicates that the process that the indebtedness of the state decreases primarily as a result of the economy being proportionately less and less burdened by the debt can continue in the medium and long term.

The analyses entitled ‘Potential tools for a more flexible planning and execution of budgetary appropriations’ examines the flexibility of budget execution based on the resilience approach.

According to the evaluation of the analysis the domestic regulation of budget execution can be considered flexible, even in international comparison, but there are still possibilities to increase flexibility. The traceability of budget processes greatly improved in the past years, but there are further development opportunities in this area. The organisations responsible for execution widely took advantage of their decision-making power granted by law, and this did not threaten the achievement of the budgetary objectives. The resilience of budget execution improved in the period under examination, but the amendment of the Act on the Budget and the high number and amount of the so-called ‘top open’ appropriations, which can be exceeded without the consent of the Government, limits the Government’s freedom of action, and the large and growing amount of the year-end balance subject to liabilities severely restricts the budgetary resilience of the following year. That is why it would be expedient to significantly decrease the number of ‘top open’ expenditure appropriations, or even fully eliminate them from the budgetary system. It would also make sense to render more flexible the possibility of reallocation between the given year’s appropriations of investments and development plans with similar aims, to be implemented during several years, by having to allocate back the reallocated sums in the following year (years).



The analysis entitled ‘The relation of gross external debt and the financing of public debt’ showed that from 2014 the proportion of gross external debt of the public finances was decreasing at an increasingly rapid rate each year in relation to the full gross external debt. In parallel, it was a favourable process that the proportion of domestic financing within the gross debt of public finances was increasing. These processes were observed in 2018 as well. The analysis pointed out that it is safer from the point of view of both active savers and public finances if public debt is financed by retail sovereign debt in increasing proportions. This directly decreases foreign indebtedness; however, if the financing need of businesses and households exceeds the internal savings remaining after the financing of public debt, then they will satisfy a part of their financing need from foreign sources. As a consequence, it is very important in terms of external indebtedness as well that public debt should increase only moderately.

The analysis entitled ‘The structural change of budget with special regard to the cyclical nature of EU funds’ revealed that EU funds were of an important magnitude in the analysed period (between 2012 and 2017) among the expenditures of the central budget. While they are important in terms of economic growth, the budget is facing numerous challenges due to EU funds. Among such challenges, the provision of budget resources necessary for the use of EU funds is of paramount importance, and carries a financing risk in itself. The fluctuation of the revenues and expenditures of EU funds, the different realisation and use of revenues and expenditures related to EU funds from what was originally planned and the carry-over of their settlement raises economic policy risks. The variability of the expenditures related to EU funds between the different years had an impact on the functional expenditure structure of budget expenditures.

The analysis entitled ‘On the factors influencing the balanced growth of the Hungarian economy’ lays down that the 2018 structure of the expenditure side of the GDP shows the image of a sound economy, which has significant external trade surplus, and spends more than one quarter of its gross domestic product on accumulation. The restructuring of the expenditure side of the GDP between 2008 and 2018 is, however, not the result of a linear change. Based on the growth rate of the GDP and its contribution to the growth of foreign trade balance, the eleven years under examination can be divided into three periods:

- 2008–2012: economic downturn, stagnation with a significantly improving foreign trade balance;
- 2013–2016: steady economic growth with a somewhat improving foreign trade balance;
- 2017–2018: dynamic economic growth with a significantly deteriorating foreign trade balance.

The delimitation of the periods indicates that there was a reverse connection between the rate of economic growth and the change in foreign trade balance. A major reason for that was the reverse movement between the change in gross capital formation and the change in foreign trade balance: when gross capital formation increased significantly, foreign trade balance deteriorated substantially. Despite this connection, the level of export exceeded the level of import in each year between 2008 and 2018; in other words, the foreign trade balance remained in surplus. Since 2015 services have increasingly contributed to the positive balance. From the financing side, the basis of the significant surplus of foreign trade was primarily created by the fact that the expenditures on capital formation of non-financial corporations and the household sector decreased substantially as a result of the global financial crisis, both sectors became net lenders, and remained that during the whole analysed period. However, a significant change occurred in the households' propensity to save from 2016. Compulsory loan repayment had finished by 2015, retail investments are recovering, households take out more and more loans, and their consumption increases dynamically. As a consequence, the net lending position of the household sector significantly moderated; therefore, it is less capable of contributing to the financing of the positive foreign trade balance. This is one of the factors that must be taken into account in terms of a balanced economic growth. The sector of non-financial corporations cannot be a net lender permanently, as it is more expedient for it to invest its savings in order to ensure economic growth. Therefore, the preservation of foreign trade equilibrium requires that the expenditure overruns of the public sector cease.

The analysis highlights that the dynamic increase in earned income between 2016 and 2018 had a beneficial impact on economic growth, as it contributed to the increase in the consumption and capital formation of households, while the net lending position of households remained significant. At the same time, the dynamic growth of earnings weakened the attractiveness of working abroad. The wage increases achieved so far can be considered as a wage adjustment—after a period of lagging behind—; thus, they did not threaten the competitiveness of the Hungarian economy either. The analysis, however, finds that a future situation in which the increase in average wages permanently exceeds the growth of work productivity poses a risk, as that entails an increase in specific labour costs. The growth in average wages exceeding the improvement of productivity is accompanied by an inflationary impact, and it generates an additional demand for import goods. This impact can be compensated by the stimulation of retail savings.

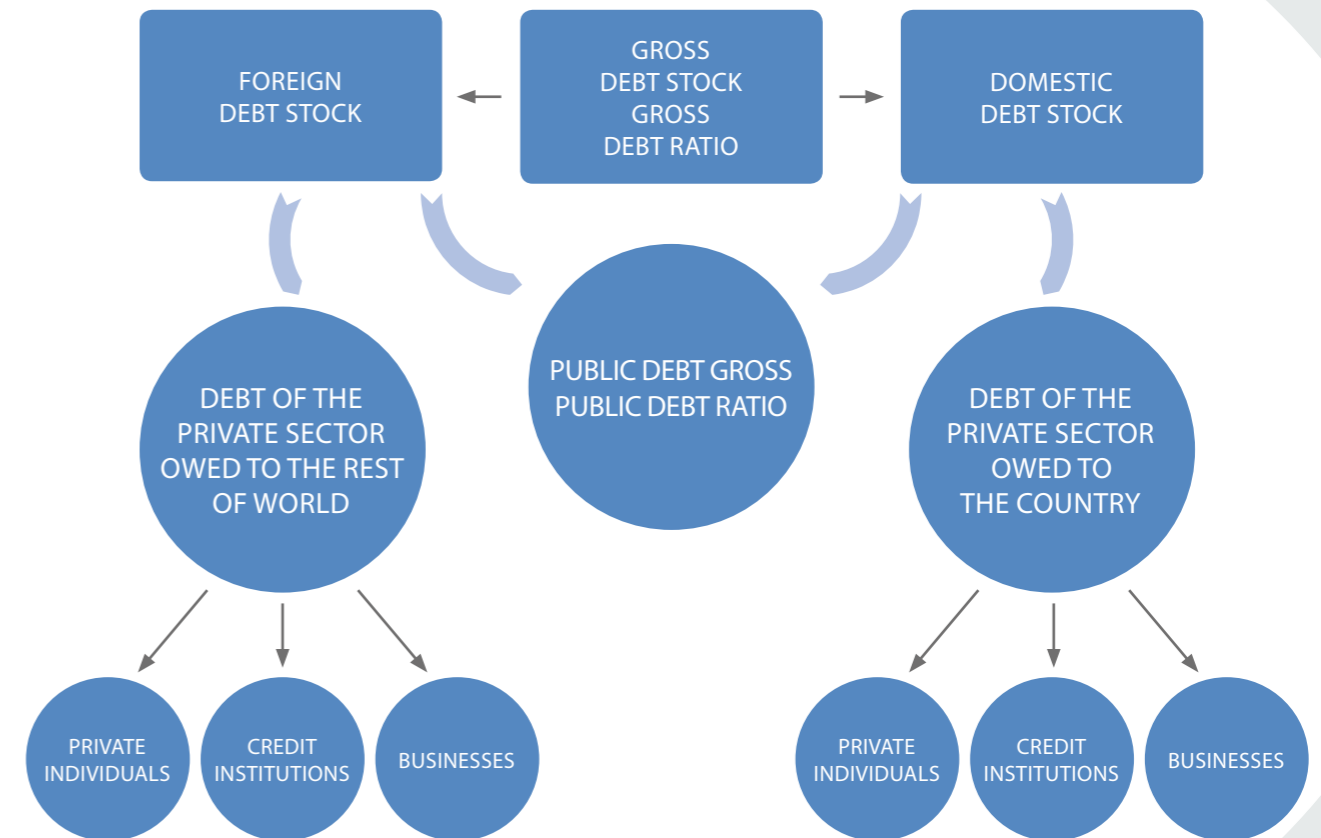
The analysis points out that although the growth in specific labour costs deteriorates the competitiveness of businesses in the short term, it means a pressure to adapt in the longer term. The key question of the competitiveness of Hungary is productivity growth. The dynamic growth of work wages encourages exactly this. On the one hand, by achieving that the labour flows towards the workplaces which can pay higher wages, that is more productive workplaces, and on the other hand, by making the replacement of labour with technology more economically viable.

The analysis presents the dilemma that the dynamic increase of wages in the public sector deteriorates the equilibrium of the budget, but in case of a more moderate wage increase outward migration would continue from the fields of the public sector where this aggravates labour shortage and deteriorates the standard of the performance of public tasks. Consequently, the budgetary sector also needs measures which act in the direction of the reduction of the wage bill payable. On the one hand, these can be savings achieved by structural and institutional transformations, and, on the other hand, it is necessary to take the measures to enhance efficiency at the level of the institutions. The analysis lays down that based on the audit experience of the State Audit Office of Hungary there are a lot of alternative ways to do so, as a large part of budgetary institutions have not even

started the measurement of performance and the development of performance management yet. In longer term, technical, technological developments and digitisation create the conditions for work productivity and efficiency in the public sector as well. These efficiency-enhancing measures create the coverage for the possibility to continue wage development measures in the priority areas of the public sector at an appropriate pace.

The analyses entitled 'On the role and significance of medium term budgetary planning' emphasised that in terms of the reliability of budgetary planning it is crucial to develop and apply a macroeconomic and budgetary forecasting method which is able to forecast the changes precisely and within appropriate time. The planning of deficit and public debt is decisive: in accordance with the national and the EU regulation compliance with the deficit and public debt rules and the maintenance of the public debt reduction process are the highest priorities during planning. In medium term, the deficit and public debt targets set equally influence the international reputation of the given country, and determine the financial management framework of the central budget and the chapters. Government strategies and programmes, guarantee and surety undertaken by the state, investment programmes and the comprehensive presentation of the budgetary impacts of the appropriations which can be implemented without amendment are all important aspects during medium-term budgetary planning. All this contributes to ensuring the accuracy, predictability of medium-term budgetary planning and the transparency of budget processes.

INTERPRETATION AND COMPONENTS OF THE GROSS EXTERNAL DEBT RATIO



The analysis well illustrated the connection that all three players—the state and the businesses, as well as the population—need to engage in a thoughtful and conscious financial behaviour in order to ensure the financial stability of a country. The excessive financial risk-taking of the population may make significant groups of the population so vulnerable that their protection will require burdens to be assumed by the budget. At the same time, the behaviour of the population seeking to achieve financial security creates a win-win situation, in which retail savings contribute to the steady financing of public debt, provide coverage for the development of businesses, but also mean long-term savings for the investments of households, and build the financial funds of self-support.

Related decision
of the National Assembly
Decision No. 41/2014
(XI. 13.) of the
National Assembly
supporting the social
contributions of the SAO
to the development of
financial literacy

Financial awareness

Bearing in mind the connections described above, in 2011 the State Audit Office of Hungary decided to make the improvement of the financial literacy of the Hungarian population an area of priority in the context of its social responsibility. This endeavour of the SAO was strengthened by the National Assembly in a decision in 2014. The State Audit Office of Hungary played an active role in the development of the national strategy for the improvement of financial awareness, which was completed in 2017. In line with the division of work specified therein, the State Audit Office of Hungary made significant efforts in 2019 as well to expand the financial and public finance knowledge of the population. In accordance with the basic principles of the strategy, the SAO carried out this activity in cooperation with civil organisations, academic workshops, educational institutions and public administrative bodies.

Similarly to the last few years, our Institution assessed the financial knowledge of secondary school students and the adult population in 2019 as well, with the collaboration of Econventio Round Table Public Benefit Association and the University of Szeged. The results of previous surveys confirmed that expanding the financial knowledge of the population and raising awareness of the risks and responsibility associated with financial decisions are particularly necessary. For this reason, the SAO established a specific project under the name 'Financial Awareness Project' in 2016 in order to improve the financial awareness of families, and it continued the implementation of this project in 2019 as well. The State Audit Office of Hungary's 'Ambassadors of Financial Literacy' play a sort of advisory activity by processing the current topics of the financial situation. Their talks draw the attention of different groups of the population to the risks associated with borrowing and financial investments through the articles published on the SAO's website, but they also set out some criteria for a prudent financial behaviour. Keeping up with the requirements of the 21st century, we process the basic concepts related to everyday finances, the forms of savings, the different money management techniques, as well as the current topics affecting the daily life and finances of households in animated videos, thus contributing to the expansion of the population's knowledge of financial matters and the improvement of their awareness.

The most recent area of the Financial Awareness Project is the setting up of a cooperation network between the SAO and the county government offices in order to establish a direct relationship with the population. Within this framework, the SAO's information materials and animated videos published online and on social media platforms are now available in the customer spaces of the government offices involved in the agreement.

What are we making all these efforts? Numerous pieces of international and national research have pointed out that the Hungarian population's financial literacy lags behind the desired level, and there are gaps in the financial knowledge of a substantial proportion of Hungarian families. The expansion of such knowledge contributes to achieving that people plan their household financial management more consciously and create a better life for themselves by avoiding financial risks and taking advantage of safe investment opportunities. The enhancement of financial awareness is in everyone's interest, because the advanced development level of financial knowledge, financial literacy and awareness has a positive impact on both the individual and the state, as well as the businesses and the financial intermediary system.



2. Audit of the management of national assets and financial management

The main aim of the management of national assets, including state- and local government-owned property, and public funds is to perform public tasks. Public tasks are performed through the central subsystem of public finances, the local governments and their institutions, as well as organisations operating outside public finances. However, the society expects each organisation to manage national assets and public funds in a transparent and accountable manner while performing public tasks. In accordance with the Fundamental Law of Hungary, each economic entity is obliged to manage the national assets and public funds according to the principles of transparency and the purity of public life, and be accountable for its financial management related to public funds before the public. Considering the above, the State Audit Office of Hungary carried out audits in the area of property management and financial management, within the framework of which it audited the management of national assets and the use of resources derived from public finances, i.e. public funds.

The State Audit Office of Hungary conducted its audits aiming at management of national assets and public funds in three large fields in 2019 as well: at the local governments, at the central subsystems of public finances, and the organisations operating outside public finances which managed national assets or public funds, central budget and local governments funds.

By auditing the management of public funds and national assets by these organisations, the SAO contributes to the audited entities' regular financial management, in compliance with the legal provisions, the prevalence of transparency and accountability, the responsible financial management of state property, and thus the effectiveness of task performance. With all these efforts the SAO supports the improvement of the public financial situation, the strengthening of public confidence in audited entities, the regulated, transparent, balanced and sustainable operation of the budgetary system and the functioning of the 'well-managed state'.

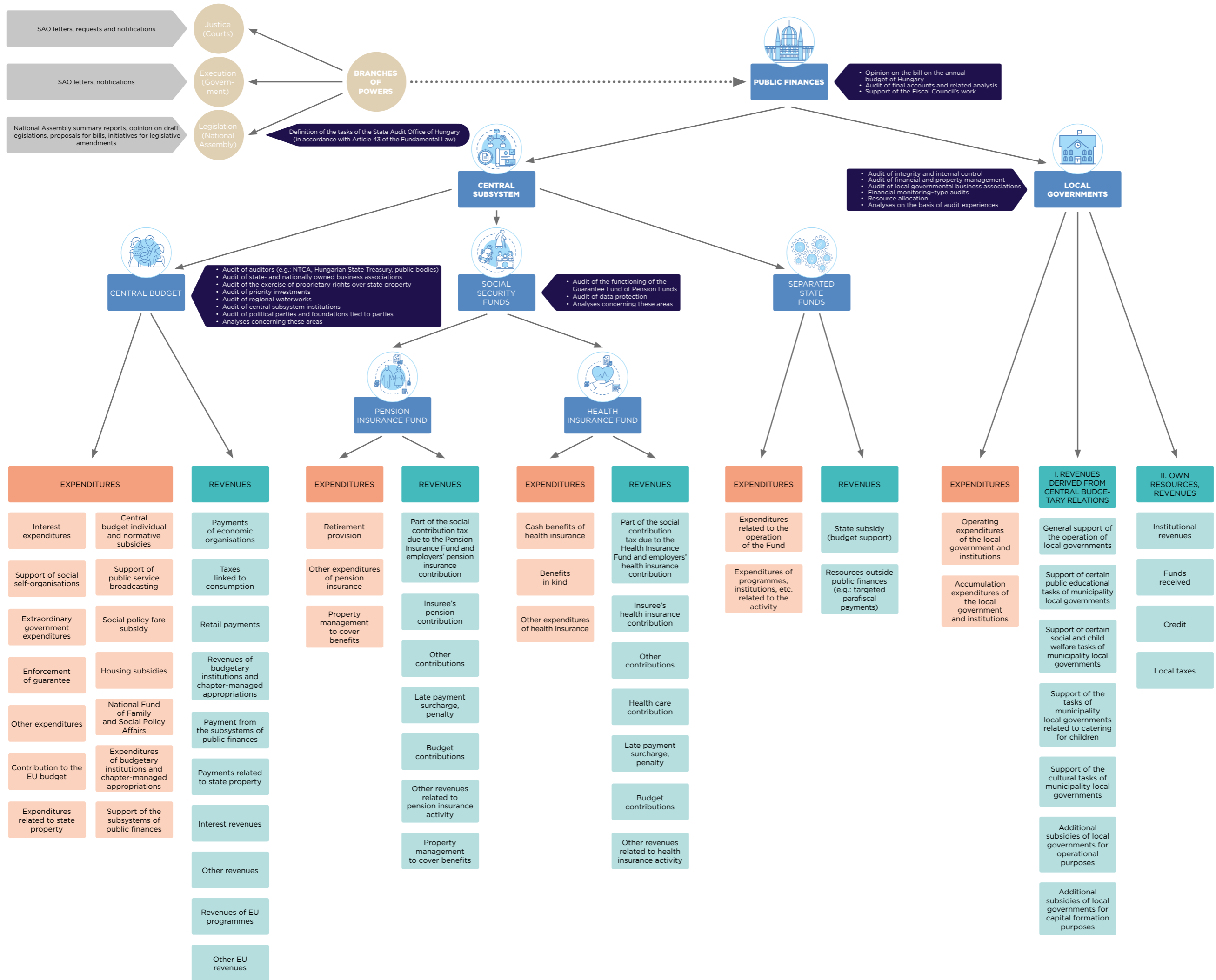
The SAO conducted the audits by applying the method of compliance audit, while also using propriety criteria.

The SAO published its report containing its audit findings in the manner specified by law, but its warning letters sent to the auditees also served the purpose of improving the public financial situation. The experiences gained from the audits highlighted that if the organisations do not develop and operate the criteria for the regular financial management of national assets and public funds, then the protection of national assets, the transparent financial management of national assets and public funds, accountability and use according to the purpose, as specified by the Fundamental Law, cannot be guaranteed.

I. LOCAL GOVERNMENTS

Financial management, financial equilibrium of local governments

As a result of the consolidation of the debt stock of local governments implemented between 2011 and 2014, the task performance of local governments was re-structured, and their financial situation was restored. However, due to the hazards resulting from the financial management of local governments, the SAO continues to monitor with special attention the evolution of the risks affecting the financial equilibrium of local governments, the processes causing financial vulnerability, and system-level risks affecting the entire local governmental subsystem. The SAO's audit findings draw the local governments' attention to potential unfavourable processes so that the financial equilibrium of local governments can also be maintained in the long term by taking the necessary measures.



In 2019, the SAO evaluated propriety criteria concerning the area of finances, property management and indebtedness in the case of four groups of village municipalities, a total of 781 local governments, using the data of the annual financial statements of local governments for the years 2016–2017, included in the central information system of the Hungarian State Treasury. The evaluation contributed to the identification of risk areas requiring system-level or individual local government-level intervention for the sustainability of the financial equilibrium of local governments.

Based on the data of the annual financial statements submitted by local governments, the SAO drew the system-level conclusion regarding the 781 local governments that the financial equilibrium of local governments was sustainable in 2016 and 2017 without substantially changing the tasks and the financial management conditions. Therefore, there was no risk of indebtedness, which means that no system-level intervention was required. For the preservation of the value of national assets, however, measures must be taken in the long term in the case of three groups of municipalities.

During the audits, individual local government-level risks were also evaluated for the 781 local governments for the year 2017 in the area of financial management, indebtedness and property management. From the areas found to be exposed to risks, the SAO designated areas of intervention in the form warning letters addressed to the local governments concerned.

Considering the weight of the risks identified at the level of local governments, in 2017 a total of 28 local governments received an unsatisfactory grade due to accounts payable exceeding 90 days, and in the case of eight local governments, there was also a risk of a debt settlement procedure. In the case of these local governments, the management of the identified risk requires immediate liquidity management measures, because the existence of the said risk threatens the task performance of the local government. In terms of the identified risks a total of 162 local governments received a satisfactory grade. In their case, there was an operational imbalance as the local governments in question spent more than their revenues; therefore, the sustainability of the performance of the local government's tasks was also at risk. 591 local governments received a fair grade, or higher: in the case of their majority the audits did not find any material risk threatening financial equilibrium.

In order to create and maintain the financial equilibrium of local governments, the SAO reminded the local governments affected due to individual risks to the fact that in the light of the changes taking place in 2018–2019, they should assess the risks for 2019, and then manage them and take action in accordance with the impact of the weight of the risks on the operational equilibrium and the performance of tasks.

In its audit of the local governments, the State Audit Office of Hungary assessed their internal control system as well. For local governments where the setup and operation of the internal control system was not regular as the basic regulatory tools for the management of public funds and assets were missing, or the exercise of control activities did not comply with the regulations, the protection of assets and the transparent, auditable and accountable management of public funds and local government assets was not guaranteed.

Investments of local governments

Local governments can temporarily invest their free funds within the framework of property management, and they are free to choose from investment opportunities. They also bear the risks—including possible losses—associated with the investment activity. As the temporarily free funds of local governments will be used for the implementation and execution of a local government task in the near future, it is particularly important to meet the requirement of prudent and responsible financial management in terms of these investments, as possible losses may jeopardise the implementation of local government tasks, i.e. the satisfaction of social needs. For local governments where the rules of management of municipal assets were not defined, or the recording and accounting of investments was not regular, the conditions for the intended and responsible financial management of national assets were not provided.

Institutions involved in the maintenance of minority local governments

In 2019, the SAO prepared an analysis on the experiences gained from the audit of institutions maintained by the national minority local governments. The analysis 'On the experiences gained from the audit of institutions maintained by national minority local governments' pointed out that the both the financial management and the property management of the institutions maintained by national minority local governments were not in compliance with the rules. Therefore, the accounting records and the annual financial statements submitted by these institutions were not reliable, and the protection of national assets, the transparent, efficient and responsible financial management of national assets were not ensured due to the absence of inventory.

In the framework of its advisory activity, the SAO made available to organisations using public funds the so-called self-tests, thus playing an active role in promoting integrity-based, transparent and accountable use of public funds. The self-test for minority local governments was downloaded by 119 organisations in 2019.

II. SUBSYSTEM OF PUBLIC FINANCES – CENTRAL BUDGETARY INSTITUTIONS

Exercise of proprietary rights over state property

The State Audit Office of Hungary has a legal obligation to audit the activity related to the exercise of proprietary rights over state property every year. The SAO also fulfilled this obligation in 2019 in order to promote the responsible management of public property. In this way, the SAO contributes to the strengthening of state control over assets, responsible, regular property management, the improvement of the performance of tasks aimed at the protection of state property, utilisation in the public interest, and the substantiated preparation of decisions for its future development.

The audit found that in 2017 Magyar Nemzeti Vagyonkezelő Zrt. established controls to ensure the proper exercise of proprietary rights and supported the regular operation of 100% state-owned business associations. By performing its tasks, it had contributed to the adequate utilisation of state property in a way that helps preserve, or even increase, their value. For 2018, the audited proprietary organisations regularly complied with their regulatory, registration, reporting and asset protection obligations for the state property entrusted to them, thus ensuring the transparency and accountability of the management of state assets.

The findings of the previous audit of the SAO were utilised by the organisations exercising the proprietary rights; thus, the risks of transparent operation and management of state property were significantly reduced.

Central budgetary institutions

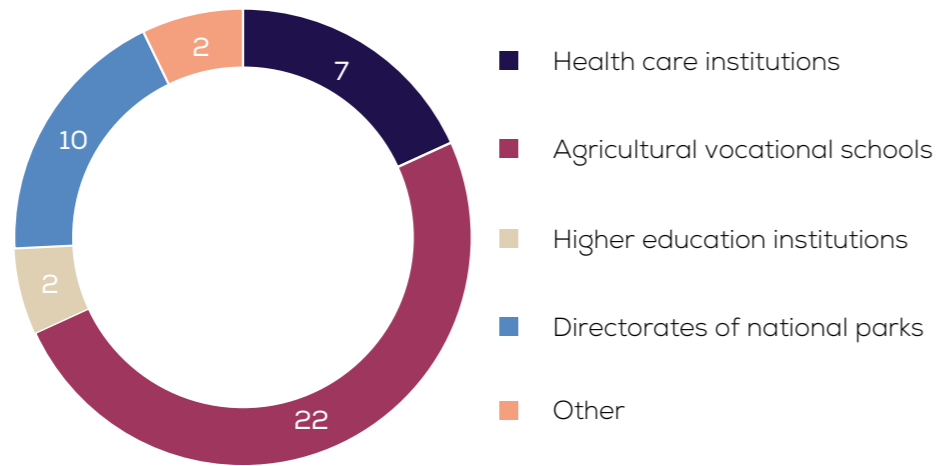
The essential function of the institutions that are part of the central subsystem is to ensure the performance of public tasks. Representing a substantial share in the use of public funds, the institutions of the central subsystem may exert a significant impact on maintaining budgetary equilibrium, owing to the weight of their financial and property management activities and/or their task performance. They also have an impact on the quality of the financial management of state property and the implementation of governmental policies, and, with regard to their public task performance, on the citizens' quality of life and exercise of their rights and obligations.

SAO proposal

In order to protect state property, it may be necessary to strengthen controls over state property and thus to facilitate the exercise of proprietary rights. Spreading of knowledge gained from the audit of asset preservation (even through training) among the users of national assets.



DISTRIBUTION OF CENTRAL BUDGETARY INSTITUTIONS
AUDITED IN 2019 (NUMBER)



The State Audit Office of Hungary regularly audits the establishment and operation of a responsible asset management environment in these institutions, changes in assets, the transparency of their accounts, the authenticity of their records, the adequacy of their valuation, as well as the regularity of the reporting of state property and the supporting of the balance sheet in the ledgers and balance sheet of the budgetary institution. The SAO found that in those budgetary institutions where the valuation policy for assets and liabilities, or the stock-taking and inventory regulations were missing, or where no inventory of assets and liabilities existing at the balance sheet date was drawn up, there the protection of assets, transparent and accountable property management and the auditability of property management were not guaranteed. In the case of these budgetary institutions, the accounts of the institution did not certify the preservation of the assets and the balance sheet value of the national assets it managed was not real and reliable.

When auditing the regularity of property management, the performance of the tasks of the management and intermediate management bodies in the case of social and child protection institutions was also audited. The 'Analysis summarising the SAO's audit experiences regarding social and child protection institutions' drew attention to the correlations and risks identified during the audits. The property used for the performance of tasks of the institutions formed part of the state property, which were transferred to be managed by the intermediate management body. Despite the legal requirements, in the majority of cases the intermediate management bodies did not enter into a contract with the social and child protection institutions under their control for the utilisation of the state property they manage. Thus, most of the intermediate managers of the audited social and child protection institutions did not ensure the regular, transparent and accountable use and operation of the property intended for the performance of institutional tasks. And because they did not specify the requirement for the sound operation of property during the performance of a public task, they did not ensure the protection of national assets either.

In 2019, the SAO made an analysis to summarise its experience in auditing the financial and property management of hospitals in accordance with the law. The 'Evaluation of the experiences gained through the auditing of hospitals' pointed out that the management of the hospitals concerned was irregular in essential areas, such as financial and property management, and the establishment and operation of an internal control system. Due to the detected irregularities and deficiencies, the protection of national assets, accountability with property are not ensured, and they also entail the risk of improper use of funds and public funds intended for the performance of tasks. Irregular financial management poses additional risks that may question the effectiveness and efficiency of the performance of professional tasks, and may also lead to a loss of social trust.

Property management related to state-owned cultural assets

In terms of the state's cultural role, the audit covered the public performance of the regular property management of state-owned and state-protected cultural assets classified as national/state property, kept by the public collections maintained by the state, and the regularity of the tasks performed by the owners, the sectoral controllers and supervisory bodies in relation to the maintained organisations.

Previous audits by the SAO revealed deficiencies in the registration of cultural assets and the protection of property. An audit of the state bodies competent for the regulation, supervision and auditing of the register of cultural assets also found that by the end of the audit period, i.e. 31 December 2017, these organisations had failed to establish a system to ensure the protection of state property embodied in cultural assets in accordance with the requirements set out in the Fundamental Law. In 2017, the Government initiated that through the amendment of Act LXIV of 2001 on the Protection of Cultural Heritage it be empowered to work out detailed rules to ensure the protection of cultural assets. Using the new authorisation, the Government created Government Decree No. 68/2018 (IV. 9.) on the rules related to the protection of cultural heritage. Among other things, the government decree regulates the registration of cultural assets in detail, thus making a significant contribution to the enhanced protection of cultural assets.

III. NATIONALLY OWNED BUSINESS ASSOCIATIONS

Nationally owned business associations perform state or local government tasks in order to satisfy social needs. Based on the decision of the state or local governments, they perform their tasks without non-budgetary funds, and they use national assets (state or local government assets), or budget support and public funds. Some nationally owned business associations qualify as other organisations pertaining to the general government sector, so their financial management, loans and debt service also affect the debt stock of public finances. It follows from the performance of their tasks and their impact on public finances that these business associations are at the centre of public interest and media attention. In terms of their social perception, it is important that national assets and public funds should be managed in a regular, transparent, accountable and effective manner.

Therefore, in 2019 the SAO continued to audit the regularity of the property management, asset preservation and value increasing activities of state-owned and majority state-owned business association. In the case of state-owned companies, where the accounting of revenues and expenses did not comply with legal requirements, the transparency and auditability of the use of national assets and public funds was not ensured. Irregularities detected in the accounting of the depreciation on which the reimbursement was based endanger the preservation of the value of the property. Where the balance sheet data of the company's annual report were not supported by an inventory, the protection of assets, the transparency of property management and accountability were not ensured.

When auditing state-owned business associations, the SAO also examined whether those exercising proprietary rights had established the framework for the exercise of proprietary rights over its business associations, they had exercised their proprietary rights adequately and fulfilled their obligations. In cases where those exercising proprietary rights did not establish regulations on the remuneration of senior executives, supervisory board members and employees working in senior positions, the exercise of proprietary rights over the companies was not transparent and accountable, while this increased the risks to integrity and the risk of fraud at the company. Where the owner failed to discuss or approve the company's annual report or accepted the report in the absence of a written opinion of the supervisory board, ownership control was not ensured, as the owner was not convinced of the regularity of the management of national assets, and the supervisory board did not perform its duty.

What are cultural assets?

According to Act LXIV of 2001 on the Protection of Cultural Heritage (Section 7 (10)): Outstanding and characteristic objects, images, sound recordings and written memories and other proof—except for real estates—of the origin and evolution of the living and non-living environment, mankind, the Hungarian nation and the history of Hungary, as well as pieces of art.



SAO proposal

In order to enforce the basic principles laid down in the Fundamental Law, it is necessary for the state, being the owner of cultural assets, to have reliable accounting records.

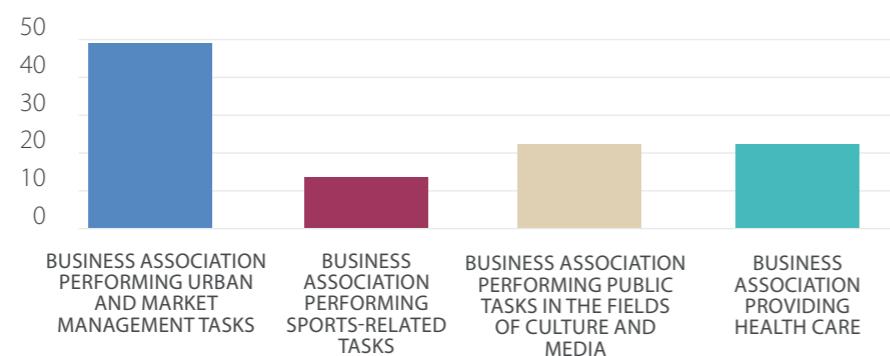
However, in addition to the legal obligation, those exercising proprietary rights sometimes imposed additional data provision obligations on their business associations regarding their operation, property management and presentation of their financial position. In this way, they were able to continuously monitor the operation, task performance and financial management of their business associations, thus contributing to the fact that in the case of a disruption of task performance, operation and financial management, they can take steps and measures in a timely manner to eliminate the triggering causes, risk factors or to reduce them to an acceptable level, thereby strengthening the proper and responsible management of national assets.

In the framework of its advisory activity, the SAO made available to organisations using public funds the so-called self-tests, thus playing an active role in promoting integrity-based, transparent and accountable use of public funds. The self-test for nationally owned local business associations was downloaded by 122 organisations in 2019.

Audit experiences of local government-owned business associations

The local governments of Hungary, in the course of performing their obligatory and voluntary duties, employ task performance using non-budgetary funds more and more widely; thus—in addition to non-profit organisations—, local government-owned business associations have gained a key role. A key objective of the SAO is to contribute to organisations operating outside public finances also using public funds in a transparent and orderly manner, by revealing the financial risks inherent in the financial management of local governments, as well as by auditing the budget supports outside public finances, the free asset allocations, and the performance systems operating outside public finances.

LOCAL GOVERNMENT-OWNED BUSINESS ASSOCIATIONS AFFECTED BY THE ANALYSES SUMMARISING AUDIT EXPERIENCES (NUMBER)



The 'Analysis of the audit experience of local government-owned business associations performing urban and market management tasks' processed the experience from auditing the operation and financial management of 49 local government-owned business associations. The audits covered the periods between 2011 and 2016. According to the analysis, the exercise of proprietary rights was regular in the case of two thirds of the founders of local government-owned business associations. However, the audits revealed a number of irregularities in the regularity and regular operation of the companies, which increased the risks of financial management. In addition to the risks, the analysis also identified good practices.

The 'Analysis of the audit experience of local government-owned business associations performing sports-related tasks' summarised the experience from auditing the operation and financial management of 13 local government-owned business associations performing sports-related tasks. The audits covered the periods between 2011 and 2016. The analysis showed that the framework for the exercise of proprietary rights was mostly regular, with the regularity of the accounting of more than two thirds of the audited business

associations not fully complying with the requirements. In the area of property management, the accounting of revenues and expenses was not regular for more than half of the companies analysed. In the asset register, almost half of the analysed companies failed to support the end-of-year balance sheet data in the report by inventory, so the annual reports of the companies were not substantiated, and the protection of assets and the transparency of operations were not ensured.

The 'Analysis of the audit experience of local government-owned business associations operating in the field of culture and media' evaluated the audit experiences related to the task performance, operation and financial management of 15 local governments performing public tasks and 21 business associations. The audits covered the periods between 2008 and 2016. The analysis showed that the owner local governments regularly exercised their proprietary rights in the case of the majority of the analysed companies, but, in the case of only one-fifth of the business associations, the SAO found regular operation and financial management in all respects during the period audited.

The 'Analysis of the audit experience of local government-owned business associations providing health care' processed the audit of the operation and financial management of 21 local government-owned business associations providing health care. The analysis revealed that more than half of the audited business associations offering specialist consultation did not have adequate regularity and accounting record keeping. Also, almost a third of the companies had irregularities in the regulation of fees, which had a negative impact on the transparency and accountability of these specialist clinics, the predictability of revenues and expenditures, and corruption risks also increased.

IV. ORGANISATIONS OPERATING OUTSIDE PUBLIC FINANCES

Non-state human service providers

The protection of those requiring social care and the performance of public education tasks are important activities for society as defined in the Fundamental Law. In the field of public education and social care, the legal regulations also allow for the performance of tasks outside public finances. Thus, e.g. church proprietors, foundations, public foundations, business associations and other associations also take part in the performance of public education, social and child protection tasks.

The range of proprietors of non-state institutions providing human services has been constantly expanding in recent years, and they receive a significant amount of budget support for the performance of public tasks every year under the conditions specified in the Act on the Budget and other industry-specific legal regulations. Institutions providing human services and operating outside public finances, carry out socially useful and community-building activities of public interest and public benefit, as well as public tasks using public funds. Since the performance of public education and social tasks affects broad sections of society, society has a keen interest in the use of the funds devoted to the performance of tasks.

On the one hand, the State Audit Office of Hungary audited the Hungarian State Treasury as an organisation appointed to audit these organisations on the basis of legal regulations, and on the other hand, the proprietors of institutions performing public tasks.

As a second line of defence in the public finance control system, the Hungarian State Treasury, in the course of its core activities, also performs audit assignments pertaining to the auditing of state subsidies granted to the proprietors of religious, non-state, non-local government operated institutions providing human services. Its audit activity for 2017 was audited by the State Audit Office of Hungary, which found that the Hungarian State Treasury had established its processes related to the performance of its audit assignments in a regular manner. It defined the tasks of its organisational units in accordance with the legal regulations, and issued the internal regulations in accordance with the provisions of these legal regulations. As a result, it created the conditions for the regularity of the audits. The internal standards governing audits pertaining to the proprietors of non-state human service providers operating social and public education institutions were in accordance with legal requirements. During the on-site audits, it acted in accordance with the legal regulations, and took regular action in the event of unauthorised acceptance of support.

SAO proposal

In the case of proprietors of non-state institutions providing human services, it is necessary to enforce the requirement of accountability and auditability of public funds in order to ensure the targeted use of such public funds. Strengthen audits belonging to the second line of defence to ensure compliance with essential legal requirements. It is recommended to approximate the legal environment for organisations operating inside and outside public finances performing the same public tasks in order to better comply with the Fundamental Law.



3. Audit findings regarding the accounting rules

In the course of its audits, the SAO assessed compliance with the accounting rules of public finances in accordance with its obligation under the SAO Act. The basic condition for regular financial management and operation and the smooth performance of tasks is the orderliness of the accounting. The State Audit Office of Hungary contributes to the regularity, transparency and accountability of the use of public funds and public property through its findings and recommendations concerning the accounting rules.

As a result of the audit, the Hungarian State Treasury took further measures regarding the frequency of audits of public education and social institution proprietors in accordance with legal regulations, and the regular keeping of the record of tasks specified in the action plans of the audits.

The State Audit Office of Hungary also continued to audit the proprietors of non-state human service providers. In doing so, it checked whether the proprietors of institutions performing public tasks not commissioned by the state or a local government used the subsidies received from the central budget regularly.

In its audits carried out so far, the State Audit Office of Hungary found that where the proprietors of the institutions failed to prepare the financial management regulations in violation of the legal requirements or they did not comply with the regulations, they did not ensure the conditions for the use of budget support. Where budget support was not registered in a separate manner as required by legal regulations, the auditability and accountability of the received and used budget support was not ensured, which poses a risk to the performance of the public task and the intended use of the support, i.e. the public funds.

Civil organisations

Civil organisations are organisations established and operated on the basis of the right of association laid down in the Fundamental Law of Hungary. Their activities are varied and are in contact with broad sections of society. From among civil organisations, the SAO audited foundations in 2019, which receive significant support from the central budget. Pursuant to the Fundamental Law, every organisation managing public funds shall be obliged to publicly account for its management of public funds. On the basis of all this, the SAO audited the use of subsidies provided from public finances or funds granted free of charge from public finances for specific purposes, as well as the responsible management of public funds by the foundations.

The SAO summarised its experience of the 2019 audit of foundations in its analysis entitled 'Audit Experiences regarding Foundations'. The analysis pointed out that in the case of foundations where the establishment of the financial and economic environment was not regular, there is a risk that the accounting records do not contain true and fair information, as a result of which their annual reports do not comply with legal requirements. In the case of foundations where financial economic rules, the documentary principle and documentary discipline were not complied with, or separate records of budget support and their use were not ensured, and the balance sheet of the annual report was not supported by an inventory, the transparent and accountable intended use of support was not ensured. And foundations that did not comply with their disclosure and deposit obligations did not meet the publicity and transparency requirements pertaining to financial management set out the Fundamental Law. In the case of foundations that did not comply with their disclosure obligation, the loss of social trust may arise as an additional consequence in connection with the performance of their tasks, which may endanger their existence in the long run.

In the framework of its advisory activity, the SAO made available to organisations using public funds the so-called self-tests, thus playing an active role in promoting integrity-based, transparent and accountable use of public funds. The self-test for the task performance of civil organisations was downloaded by 339 organisations in 2019.

The central budget is the greatest subsystem of public finances, and is responsible for the financing of the central subsystem. The central funds of the local government subsystem are also provided through it. With its largest audit, its audit methodology in the framework of the execution of the central budget, the audit of the final accounts, the SAO can also draw a substantiated conclusion on the compliance with the accounting rules of public finances. As part of the audit of the final accounts, the SAO examines the conformity of financial management with the accounting rules. The State Audit Office of Hungary found that the budgetary institutional system ensured the regularity of the management of public funds in 2018, consequently the institutions operated in a regular accounting environment and complied with the rules governing their accounting.

The SAO also evaluates the accounting rules during the individual audits of central budgetary institutions and local governments. The areas of related irregularities remain unchanged from previous years.



The lack of accounting rules, or if available, the incomplete regulations or rules violating legal regulations, is still a recurring error.

For economic entities falling within the scope of the Accounting Act, the law and a separate government decree for public finance organisations, stipulates the preparation of the basic accounting regulations, including accounting policy and system of accounts, the application of which is a basic condition for the development of the accounting rules. The most important function of the accounting rules is to produce objective information about and the development of the property, financial and income situation of the organisations engaged in financial management. The law defines the content of the accounting policy, and also prescribes item by item what statutes must be prepared within the framework of the accounting policy. The existence of an accounting policy is one of the foundations of auditability.

In the absence of an accounting policy and the regulations to be prepared as part thereof, the methods and instruments which ensure the implementation of the Accounting Act and which are most appropriate to the capabilities and circumstances of the organisation will not be recorded. As a result, the specific procedures and methods that the organisation applies in its accounting and reporting are not specified. If an organisation does not have an accounting policy and regulations to be prepared as part thereof, it has not established its regular operating and financial management environment. Thus, it has not established the conditions for the transparent and accountable use and utilisation of support received from the central budget or for its property management.

The preparation of the system of accounts is also required by the Accounting Act and, for public finance organisations, the government decree. According to the law, a system of accounts must be prepared that fully ensures the regular accounting and the preparation of a report required by the act. If an organisation does not have a system of accounts, not only does it not comply with its legal obligation, but the information content of the data contained in its report, which is intended to present its real property, financial and income situation, is also called into question.

A deficiency identified while exercising the control activities was that the commitment and performance checks were not done or not done by those entitled to do so. Due to irregularities in the exercise of control activities, it was not demonstrated that the payments made from the institutions' expenditure appropriations were in fact used for the task performance by the institutions and thus the public interest. A recurring irregularity in the audit of the financial management of the hospitals was that commitments were made in excess of the amount of free appropriation in violation of the legal requirements.

Despite the legal requirement, most institutions did not keep a record of commitments. In the absence of this, payments made from expenditure appropriations were not transparent and accountable, nor were the conditions for the regular use of budget resources met. A further consequence of the lack of commitment records is that the organisation does not have reliable information to make financial decisions, which may lead to decisions that are unsubstantiated and lack financial coverage. The lack of a regular record of commitments also has a negative effect on planning the financial management processes of institutions.

The SAO has identified a new, risky area, as the majority of the national park administrative bodies belonging to the central subsystem failed to classify the financial and economic electronic information system into a security class; thus, the closed, complete, continuous and proportionate protection of the integrity of the data and information managed within the financial and economic electronic information systems was not ensured. In the absence of this, the reliability of the data and information extracted from the accounts and forming the basis of the report, is not verified.

A recurring deficiency, regardless of the type of audited organisations, is that expenditures were recorded in the accounting records without an accounting record. Furthermore, no detailed records were kept for expenditures due to the lack of consistency between the detailed records and the general ledger statement. As a result, the accounting was not reliable, and the authenticity and completeness of the financial statement was not ensured.



4. Activities of the SAO for the development and consolidation of the integrity approach

Why is integrity important and what tools can we use to develop it?

The Fundamental Law of Hungary (Article 39) stipulates that 'Every organisation managing public funds shall be obliged to publicly account that of management. Public funds and national assets shall be managed according to the principles of transparency and the purity of public life.' There has been a paradigm shift in the fight against corruption in recent years, which was focused on bringing prevention into prominence. The strategic and sustainable response to corruption is to create and strengthen integrity, in which the SAO has a prominent role.

The general model of integrity, which complements the legal prohibition-based approach, was introduced in Hungary by the State Audit Office of Hungary. At its initiative, a unique anti-corruption collaboration was established in 2011 in support of the 'well-managed state', and the range of institutions supporting more efficient action against corruption and committed to the reinforcement of integrity has expanded from year to year. At the same time, innovative initiatives have been implemented within the SAO's Integrity Project, which contribute to the awareness of the dangers affecting public institutions, the mapping of risks and the strengthening of internal control systems ensuring protection. The ultimate goal of the SAO is to promote cultural change and to create an institutional operation based on integrity in the Hungarian public sector. It can be stated that as a result of the work of the SAO, the concept of integrity has now been integrated into the audit methodology of the State Audit Office of Hungary, is presented in the thinking of public institutions, and at the same time has an increasing impact on the organisational culture of the public sector.

According to the legal definition (Government Decree No. 50/2013 (II. 25.)), integrity is 'the operation of public administration bodies in compliance with relevant regulations and according to the objectives, values and principles defined by the head of the organisation and by the management body'. An organisation runs in accordance with integrity not only performs its task well and accurately, for what it was created for, but operates in a transparent, accountable, fair and ethical manner as well. In the case of public administration bodies, integrity means that the operation of the given institution meets the objectives of public interest defined in the legal regulation establishing the body. Therefore, what decisively distinguishes budgetary institutions decisively from other market participants is that in terms of their operation, the fundamental issue is compliance with their social purpose, and only then can economic and efficiency considerations be taken into account. Thus, integrity protects the public interest and maintains its priority over private interest.

By performing public tasks, budgetary institutions assume a serious responsibility, given the social group of users of the services they provide. An administrative organisation that operates in a perceptibly consistent manner with its stated values creates the conditions with which it can face the challenges of corruption, and builds trust in citizens and its customers.

The prerequisite for good governance, as announced in Hungary in recent years, and the cornerstone of a 'well-managed state' is the organisational integrity. Without this, neither the citizens can have sufficient confidence in their state, nor those exercising public authority can be sure that the decisions they make are carried out by the apparatus expediently, professionally, regularly and ultimately in the interests of the citizens.

Related decision
of the National Assembly
Decision No. 35/2009
(V. 12.) of the National
Assembly
continue the SAO's
activity to map
corruption risks, i.e. the
implementation of the
Integrity Project

The SAO carries out a wide-ranging activity to strengthen the integrity approach in order to reinforce the protection systems aimed at preventing corruption. Within the framework of the Integrity Project, it conducts its annual integrity survey and then prepares and publishes analyses on it. The question may arise, what benefit does this provide to society? On one hand, it draws the attention of institutions that come into contact with 'clients' to the risks that need to be managed with appropriate controls, and, on the other hand, it informs stakeholders (for example: society, institutions, National Assembly) as to which areas and tasks they need to pay more attention to.

Another tool of the SAO related to integrity is the implementation of audits. Through these, the SAO evaluates the establishment of the integrity controls of the organisations and performs a summary analysis of the audit experiences. In cases of those institutions where there are deficiencies and errors, it draws attention to the correction or establishment of the control system; thus, it supports the interest groups that come into contact with the given institution to have fair and transparent access to e.g. services and that gaining benefit should not serve private purposes.

The SAO organises conferences and professional meetings, and participates in many events as an invited participant. It is now an active member of the international community of state audit institutions and it regularly shares and utilises the best practices in integrity development. All these activities were crucial in the activities of the SAO in 2019 as well. The SAO provides training in the field of integrity for the leaders of public sector organisations and integrity consultants, thus helping the culture and approach of integrity to gain ground as widely as possible and the controls to become established. Below, we present the SAO's activity related to integrity development broken down by the above activity areas.

Spreading and reinforcing the integrity approach: Integrity Project

The development and strengthening of the integrity approach has played an important role in the life of the SAO for years. One of the oldest tools for this is the annual integrity survey and the analysis presenting the results of the survey. A record number of organisations participated in the 2019 integrity risks and controls survey: 3,451 organisations from the public sector and 1,193 public business associations. The results of the surveys conducted with the renewed methodology were presented to the public in two analyses.

The National Assembly gave the SAO the task to pay special attention to the fight against corruption. As a result, the SAO launched its Integrity Project in 2009, based on a Dutch model. Now there are a wide range of initiatives included in this Project. According to the OECD, integrity, ethical conduct and operation is a cornerstone of the well-managed state, which helps maintain confidence in the state and prevent corruption. Therefore, one of the most important tasks of the SAO is to develop and spread the integrity approach and to evaluate its enforcement.

A central element of the SAO's integrity development is the annual integrity survey and the analysis presenting the results of the survey, the aim of which is to develop the internal control system, provide feedback to the public sector institutions and business associations on their integrity risks as well as on the establishment of the controls aiming to manage risks. Participation in the surveys is voluntary, the questionnaire is filled in by the organisation itself, and based on the answers, the institutions have the opportunity to assess the integrity of their own organisation and to identify its risks and controls.

The SAO published the analysis presenting the results of the survey in May 2019 with the title 'The Analysis of the Integrity of the Public Sector Based on New Methodology'. The survey underlying the analysis was renewed at several points (new technical solutions for filling in the questionnaire, evaluation of new control tools in the analysis, automatic self-assessment sheet). The analysis details the risks involved in the operation of organisations that are related to areas such as the provision of public services, the performance of public tasks and the exercise of equity. From the point of view of establishing a culture of integrity, it is favourable that the analysis identified several well-established controls, such as the control of the performance of contracts, the possibility to get familiar with the conditions of use in terms of public services, the prevalence of internal control and

the protection of whistleblowers and complainants. However, the analysis also revealed less controlled areas. The use of integrity consultants, job rotation, the use of automated systems, customer opinions, the most significant integrity risks stemming from the use of external consultants. Public institutions use external experts most often for advisory tasks, but the content of the advisory tasks is difficult to judge, its transparency is the least guaranteed; therefore, it is justified to strengthen the control level in this field.

An analysis 'Study on the 2018 integrity situation of publicly owned business associations' involving the responses of 1,193 companies pointed out that the average vulnerability of companies performing a public task and/or providing public services (hereinafter collectively referred to as public service companies) proved to be higher than that of companies providing only market services, as the public service often entails circumstances (such as management of property, performance of official duties, financial support) that increase the exposure of integrity. The analysis revealed a general trend that an increase in the size of companies is accompanied by an increase in their vulnerability, as new vulnerabilities (e.g. more management levels, more complex regulation) emerge in parallel with the increase in size. However, creating a higher level of control is not automatic, but requires conscious measures. Belonging to a group of companies also increases the vulnerability of the companies, which can be well compensated by applying group-level controls. The survey data confirmed that EU support is associated with an increase in the frequency of integrity threats. At the same time, the higher risks associated with EU support have generally been offset by the strengthening of the control system. The analysis showed that factors increasing integrity risks are also becoming more common in relation to public procurement, and that the relationship between vulnerability and control levels tends to be positive. The average vulnerability of local government-owned companies is higher in most groups created by company size than the average vulnerability of public companies. This can be traced back to the provision of public services, the exercise of official power or the involvement of subcontractors. The survey data confirm that the establishment of integrity is closely linked to the organisational culture, the commitment of management to regularity and transparency, so it is important to broadly share audit experiences and organise management training. The companies with the lowest level of controls did not assess the achievement of the goals set in terms of the company's efficiency and effectiveness and did not have a reporting or complaint handling system for citizens/customers.

The evaluation of the results of the survey confirmed the need to amend the legislation regarding the operation of business associations. Within the framework of Act LXVI of 2019 on laying the foundations of Hungary's central budget of 2020, the National Assembly amended Act CXXII of 2009 on the Economical Operation of Public Business Associations. According to this, above a certain size, the managers of public business associations are obliged to establish an internal control system.

Significant areas in the focus of integrity controls and analyses

The evidence-based external evaluation of integrity controls is ensured by audits of the SAO which create an important pillar of the SAO's integrity development activities. Integrity being a focus area has for many years been part of the SAO's audits, primarily in the area of internal control, but also appeared as a separate audit topic among the audit topics in 2019. The methodology of the new audits allows for a risk-based evaluation of the most important integrity controls of hundreds of institutions simultaneously, while pointing out system-level deficiencies and strengths.

Strengthening organisational integrity is of prime importance for the prevention of corruption. This, however, can only be controlled if the social expectation and in accordance therewith the legal requirements regarding that it is the fundamental duty of the head of any public institution to create and strengthen organisational integrity are established beforehand. It was a turning point in the controlling of integrity when in 2016 the leaders of every budgetary institution became responsible for establishing an internal control system which is suitable for ensuring the enforcement of ethical values and integrity, and when it became mandatory to regulate the rules of procedure for managing events which violate organisational integrity. In addition, the assessment of integrity risks became a mandatory part of risk analysis. As a result, the conditions for integrity control were established. The SAO not only analyses and assesses the establishment and op-



SAO proposal

Further steps need to be taken by local governments to build integrity controls that are in equilibrium with the risks involved. In order to appropriately develop and operate the internal control system and to manage corruption risks, local governments must place emphasis on compliance with legal regulations and strengthen their first lines of defence. In the audit of local governments, the second line of defence must pay increased attention to the enforcement of the principles of public funds, accountability and lawfulness.

eration of organisational integrity controls that provide protection against the threats of corruption, but also audits these. In 2019, the SAO checked whether the budgetary institutions complied with the rules on integrity. In 2019, the State Audit Office of Hungary assessed the integrity controls developed within the internal control system in a total of 102 audits, covering 47 central budgetary institutions and 55 local government budgetary institutions. On the other hand, it determined widely accepted propriety requirements for the integrity measures of the audited entities. The audits have shown that if the controls aimed at functioning on the basis of the principle of integrity are not established adequately at an organisation, then the protection against the corruption risks and the integrity-based use of public funds are not ensured.

Among the five pillars of the internal control system, the development of the control environment, the development and operation of an integrated risk management system, and the appropriate operation of control activities are particularly important for the responsible and accountable financial management of the organisation, the enforcement of integrity and protection against fraud. To this end, all procedures and internal rules need to be established to ensure that all the activities and objectives of the budgetary institution are in line with the criteria of regularity, economy, efficiency and effectiveness and that the management of assets and liabilities does not involve wasting, abuse, or improper use. Therefore, in those budgetary institutions where the basic regulations were missing, the level of the internal control system did not serve the regularity of the use of public funds; thus, it did not contribute to the prevention of irregularities and errors. The requirement to have adequate, accurate and up-to-date information on the functioning of the budgetary institution available has been violated where no up-to-date register of persons entitled to exercise financial management powers and their specimen signatures has been kept. This did not ensure the conditions so that commitments can only be made and performance can only be certified by those who are entitled to so.

The head of the budgetary institution can enforce the regular and efficient use of public funds and public property through the development and operation of the internal control system, and can operate the so-called *first line of defence* by involving internal auditors. In addition to this role, the audit organisations representing the *second line of defence* can enforce the proper functioning of the public finance controls set out in the Act on Public Finances by appropriately exercising their role in audit assignments.

In the audits of the SAO, the audit of the development and operation of the internal control system was emphasised last year as well, as the transparent, regular, effective and efficient use of public funds and public property is impossible without the appropriate establishment and operation of the internal control system. Therefore, the audits of the SAO's internal control system, through its pillars, focus on whether the internal control system developed and operated by both the institutions of the central and local government subsystem and the local governments has ensured all the conditions necessary for the budgetary institution to carry out its activities regularly, in the course of its operation and financial management, fulfil its accounting obligations and protect its resources from losses, damage and improper use.

As in recent years, when making an Audit and giving Conclusions and Findings on the Execution of the Budget of Republic of Hungary, the SAO also evaluated the control environment and the internal control system as part of the 2018 final accounts. The qualification of the internal control system was given an appropriate qualification in the audited areas.

The SAO started its independent integrity audits in 2019, first among municipal local governments, considering that integrity surveys identified local governments as a riskier-than-average group of institutions. The integrity of smaller local governments is especially vulnerable, as their control environment and integrity infrastructure are less developed, as evidenced by the results of the SAO integrity survey. The audit conducted under the new plan can assess the integrity system of—up to several hundred—local governments in the focus areas selected from the point of view of risks. The SAO checks whether local governments have complied with the minimum requirement of appropriately assessing and managing their integrity risks, examines the development of the

ethical system, and evaluates the development of mechanisms for the management of external relations and conflicts of interest. The audit also assesses well-known tools such as the management of asset declarations or the operation of complaint and whistleblowing handling systems, which are essential for detecting abuses. The audit plan also asks for the development of tools that are not legally required. The SAO based the related requirements by identifying 'good practices' and self-tests included in international standards, domestic guidance and methodological guidelines.

In the framework of its advisory activity, the SAO made available to organisations using public funds the so-called self-tests, thus playing an active role in promoting integrity-based, transparent and accountable use of public funds. The self-test for the internal control system of local governments was downloaded by 563 organisations in 2019. The self-test for the central budgetary institutions was downloaded by 523 organisations in 2019.

The SAO conducted an audit of the integrity situation of state-owned and local government-owned business associations as well.

In addition to the two analyses already mentioned, the SAO prepared 9 more analyses in 2019, which processed the experience of the integrity survey and the findings of the audits related to integrity controls in certain areas (such as health care, sport, urban management), which had been previously assessed as part of thematic audits and other areas (internal auditing function, long-distance public transport). These analyses summarise the integrity risks and controls specific to the area examined. The analyses:

1. Analysis of the audit experience of local government-owned business associations performing urban and market management tasks
2. Analysis of the audit experience of local government-owned business associations performing sports-related tasks
3. Analysis of the audit experience of local government-owned business associations operating in the field of culture and media
4. Analysis summarising the SAO's audit experiences regarding social and child protection institutions
5. Long-distance public transport
6. Analysis on the audit experience gained from the institutions maintained by the national minority local governments
7. Analysis summarising the audit experience of hospitals
8. Analysis of the audit experience of local government-owned health care business associations
9. Analysis of the state of internal audit activity



Based on the analyses and audits, in terms of integrity, special attention needs to be paid to health care. The inherent risks in health care, the identified corruption threats and the recurring irregularities and deficiencies revealed in the audits of economic organisations in health care (hospitals, specialist practices and management bodies) show that corruption risks are extremely high in health care. The SAO audit of 'emergency' medical response, which was completed in June 2019, also revealed a lack of regularity and transparency, and the resulting corruption risks. In connection with the previously audited analysis summarising the audit experience of 17 hospitals, the SAO pointed out that only five hospitals had an adequate integrity control system in place.

The State Audit Office of Hungary's commitment to integrity in its audit, analysis and consulting activities is also demonstrated by the fact that the State Audit Office of Hungary, in addition to the Curia of Hungary the Office of the Prosecutor General, the Ministry of Interior, the National Office for the Judiciary, and two institutions that joined in 2016, the Magyar Nemzeti Bank and the Public Procurement Authority, plays a prominent role in the national anti-corruption cooperation launched in 2011.

The utilisation of the work of the SAO and the achieved results are well demonstrated by the fact that in its report prepared regarding Hungary in 2010, the Group of States against Corruption established by the Council of Europe (GRECO) still recommended that 'the State Audit Office of Hungary perform more frequent, proactive and rapid audits in the field of political funding, including the preventative measures and the more large-scale identification of financial irregularities'. As a result of the international suggestions and the experiences of the SAO accumulated in the course of the audits, since 2010, the National Assembly has made the legislative environment of the audit of parties and the provisions related to campaign funding stricter in several phases, which has made it possible to tighten the Hungarian practice of auditing political parties in recent years, which also defines the SAO's audit methods and practices. The GRECO confirmed the advances of the Hungarian audit practices and the functions of the SAO too: in its 2015 report, it already stated that 'the State Audit Office of Hungary achieved considerable advances in the field of the supervision of campaign funds and the parties'.

In 2019, this was no different, as the State Audit Office of Hungary audited the parties' financial management this year as well. It is a fundamental interest of the constitutional state and of the protection against corruption regarding public funds that parties which mostly use public funds should manage the money they receive from the taxpayers and their supporters in a regular, accountable and transparent manner. If a party accepts prohibited support—or does not ensure that public funds are accounted for in compliance with legal regulations—, its financial management is not transparent, which leads to serious corruption risks. It is important that citizens get a true and fair image of the financial management of political parties through the financial statements of the same. For a fair political life and the transparency and accountability of parties, it is of utmost importance for parties to be funded solely from legal sources. In 2019, the SAO published its reports on the audits of the 2016–2017 financial management of the Fidesz–Hungarian Civic Alliance and the Christian Democratic People's Party.

In the framework of its advisory activity, the SAO made available to organisations using public funds the so-called self-tests, thus playing an active role in promoting integrity-based, transparent and accountable use of public funds. The self-test for parties was downloaded by 71 organisations in 2019.

A high-priority topic closely related to parties is the audit of illicit subsidies, as this has a significant impact on society, as if such subsidies are accepted, there is a risk that the party affected represents the interest of the entities providing the prohibited support instead of its electors arises; thus, the principle of expressing the will of people as defined in the Fundamental Law and realised through the parties can be compromised.

The Act on Accounting, the Act on Political Campaigns and the Act on Political Parties contain provisions for nominating organisations with regard to the use and accounting of campaign funds. Compliance with these provisions ensures the regularity of the use of, transparency and accountability of campaign funds. In this context, the SAO audits whether the accounts published by the parties and the supporting financial

documents prove the lawful use of campaign funds. The SAO is only entitled to determine the value of any prohibited support accepted by the parties, as set out in the Act on Political Parties. The legal consequences of any prohibited support identified are determined by the relevant legal provisions, and their enforcement falls within the exclusive statutory power of the authority.

In 2019, the SAO completed the statutory audit of the monetary funds spent on the parliamentary election campaign of 2018.

Knowledge transfer and exchange of experience for sharing good practices

The work and results of the SAO in terms of integrity development are also widely known internationally. The development of integrity, its methodology and tools are the features and one of the strength of the organisation that distinguish our institution in the international arena. A high priority event of our international activity is the annual International Integrity Conference and Seminar, which was attended by 31 SAO experts from 16 countries in 2019. The event focussed on procurement, public sector contracting practices and the integrity of using external experts. In addition, we should not forget that the SAO continuously keeps contact and shares knowledge with international partner institutions and studies the international practice of the fight against corruption, supports the work of the partner state audit institutions against corruption, participates in domestic and international conferences as an active contributor and utilises the experience gained there in the performance of its tasks.

Between 2014 and 2019, the SAO organised 6 seminars, which were attended by 206 SAO experts from 66 countries. The SAO's integrity seminar successfully conveyed the message that the approach focusing on the prevention of corruption and the strengthening of integrity is a suitable role for supreme audit institutions. In terms of INTOSAI member organisations, the seminar series has reached one third of the member countries so far. The regional organisational coverage of the integrity seminar, the participation data of ARABOSAI (59%) and ASOSAI (54%), which exceeded fifty percent, can be considered an outstanding result. We also achieved above twenty percent coverage from participating Member States from AFROSAI (37%), EUROSAI (28%) and OLACEFS (23%).

However, it is also of a prime importance to mention that a number of Hungarian and international conferences have been held on integrity, which are also of prime importance for sharing and acquiring good practices, and discussing current events and challenges. One such event was the pre-event of the '8th session of the Conference of the States Parties to the United Nations Convention against Corruption', which aimed to explore new ways for international cooperation in the fight against corruption. The international meeting of supreme audit institutions and national anti-corruption authorities to explore cooperation opportunities focused on facilitating the implementation of the 16th SDG (UN Sustainable Development Goals). At the meeting, participants shared their experiences on the use of the means of fight against corruption, from the establishment of the national anti-corruption strategy to the analysis of corruption risks, the reduction of corruption risks in public procurement and the development of joint training programmes. At the event, the SAO presented its integrity project, highlighting the role of cooperation between constitutional institutions. The focus of the 'International Annual Integrity Conference' was on the application of the latest digital technologies and the importance of sharing the related experiences of the SAO. The SAO Integrity Project was introduced at the conference as a good practice. The IDI event 'Fighting Corruption' aimed to support the implementation of ISSAI 30. The SAO's experts participated in the meeting reviewing the results of the self-assessment as mentors. In the framework of the evaluation, with the support of the SAO's mentors, the participants formulated specific recommendations and action points for the areas where they proposed the further development of their ethical framework, taking into account the provisions of ISSAI 30, i.e. the INTOSAI Code of Ethics. At the OECD's Anti-Corruption and Integrity Forum, entitled 'Tech for trust', participants discussed the risks and opportunities of new technologies for curbing corruption and promoting integrity, and shared their experiences in this field.

In September 2019, Public Finance Quarterly, the journal of the State Audit Office of Hungary on public funds, organised a conference on the reliability of international measurement systems—such as rankings on corruption, competitiveness and credit rating—in cooperation with the National University of Public Service under the title ‘Facilitating good governance with reliable measurement systems’. The purpose of the event was to facilitate the identification of reliable measurement systems suitable for supporting public policy planning. In addition, the methodological deficiencies of the most internationally known corruption indices were presented.

International experience shows that there is a global need to introduce measurement systems that are sufficiently detailed and reliable to identify points of intervention. Based on meetings with the participants, it can be stated that there is a worldwide need to nuance the one-sided country image formed by the indices measuring the perception of corruption. This is supported by the integrity survey and audit, as well as the integrity methodology developed on the basis of the SAO’s method.

Integrity consultancy and support with trainings and self-tests

The purpose of the advisory activity of the SAO, also confirmed by the National Assembly, is knowledge sharing and disseminating ‘good practices’, and developing public finance and leadership skills among the organisations of the public finance system. Within this framework, in 2019 the SAO provided the option for more than 100 top managers to participate in its public finance management training, as well as continued its integrity consultancy trainings.

With regard to domestic trainings, it is a milestone that in Decision No. 34/2015 (VII. 7.) of the National Assembly, the National Assembly recognised in accordance with Section 2. a) of Decision No. 35/2009 (V. 12.) of the National Assembly the implementation of the SAO’s activities aimed at mapping corruption risks, and the activities carried out in order to spread the integrity-based organisational culture. As the development of the foregoing, the National Assembly supported that in terms of the entities concerned by the financial management of public funds and public property the SAO shall broaden its advisory activity related to management systems and support the ethical public funds leadership training.

In order to accomplish the goals of the decision, the SAO concluded a cooperation agreement with the University of Miskolc in 2016, and then the two institutions launched their joint public finance management training focusing on ethics and integrity in the autumn of 2017. The thematic of the management training was designed specifically for the top leaders of organisations and business associations using public funds, and intends to support their work with on-the-job training and an online training programme. The opening events of the first day of the seminars are usually Good Practice Conferences.

In 2019, the SAO held four public finance management trainings for nearly 100 senior managers. In March, the heads of publicly owned business associations audited in the previous two years, whereas in May, the heads of institutions maintained by the national minority local governments were able to take part in the training. The leaders of local government-owned business associations were invited to the public finance management training organised in October, whereas in November the top managers of 19 already audited hospitals with central budget were invited. Participants deepened their knowledge and developed their skills in the areas of organisational integrity, public service performance management, management control and public service value creation.

In 2012, the SAO and the National University of Public Services signed a cooperation agreement to develop an integrity-based public administration culture. Within the framework of the cooperation, the two institutions developed a curriculum for the training of integrity consultants. The aim of the training is to support the introduction of the integrity management system in the public administration, to further train public administration professionals who can support the strengthening of the integrity management system in a public body. Between 2013 and 2019, a total of 394 integrity consultants were trained. In 2019, the two institutions renewed their cooperation, broadening professional-academic cooperation through knowledge sharing in the field of integrity survey and research. Within this framework, the SAO participated in the further development of the curriculum of integrity consultants.

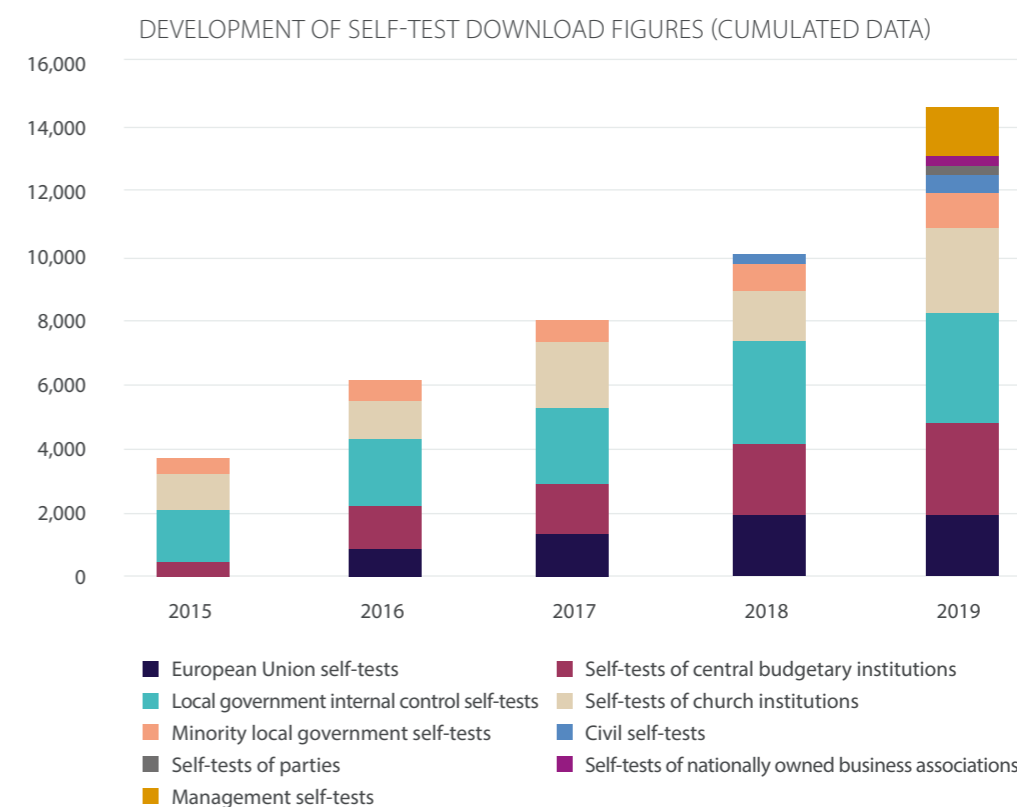


In harmony with its strategic objectives, the State Audit Office of Hungary continues to play an active role in the fight against corruption and fraud. The implementation of the strategic objectives of the State Audit Office of Hungary plays an active role in the fight against corruption and fraud, and in the development of responsible and ethical management behaviour; thus, within the scope of its advisory activities, the SAO expanded the range of downloadable self-tests with further seven areas, taking an active role in supporting the integrity-based, transparent and accountable use of public funds. The SAO launched its self-test system in 2014, in the framework of which organisations using public funds have so far downloaded nearly 14 thousand self-test questionnaires.

With the help of the SAO’s self-tests, which can be filled on a voluntary basis, the organisations that complete them can get an idea of the regularity of their own operations and the state of their internal control system. The main purpose of the self-assessments carried out on the basis of the completed self-tests is to support the regularity of the use of public funds and the performance of public tasks, the performance of management and financial management tasks, audit assignments, the fulfilment of the related expectations, and thus their transparency and accountability. In addition, information from self-tests can be used to help develop and improve these systems.

The SAO’s self-tests contribute to the regular performance of public tasks and the use of public funds by the leaders, managers, management and proprietors of local governments and minority local governments, ecclesiastical legal entities, civil organisations and central budgetary institutions and business associations.

From 2019, self-tests have been available to support the establishment and monitoring of requirements for the use of public funds, promoting regulated and regular operation, prepared for parties and party foundations, ecclesiastical institutions, nationally owned business associations and their leaders, as well as for the leaders of local governments and central budgetary institutions.



What does self-testing mean?

Self-test is a set of questions supporting the assessment and evaluation of the task performance of organisations and institutions operating by using public funds, the regularity of their internal control system, which was prepared taking into account the given operational and regulatory environment and the specificity of the tasks, and it can be filled in by the stakeholders on a voluntary basis, for their own utilisation.

5. Performance audits

According to the Fundamental Law, public funds and public property must be used not only regularly, but also effectively. To this end, it is essential to measure performance in order for the strategic goals to be adequately prepared, substantiated, the fulfilment of the goals to be measurable, and, if necessary, to be able to adjust the means that ensure the achievement of the goals in order to achieve the expected result. In the course of performance audits, the State Audit Office of Hungary does not look for errors but draws the attention of the heads of the audited entities to areas that are risky for performance. In the public sector, however, effectiveness cannot be interpreted without regularity. Stakeholder satisfaction is also an important consideration when evaluating the performance of audited entities.



SAO proposal

In order to appropriately manage public funds and public property, it is expedient to increase the number of organisations that consciously use performance measurement and to strengthen the definition of performance criteria.

In the case of public finance organisations, there is a fundamental need for measures that provide a framework for the reasonable management of public funds and national assets, target efficiency, ensure effectiveness, or take measures to improve this, i.e. they establish a framework for performance management. In many cases, the SAO assessed the task performance of the audited entities on the basis of regularity, propriety and performance criteria, as the basic condition for effectiveness in the public sector is the regular performance of public tasks, taking into account social expectations. The regular operation of organisations is supported by the establishment and operation of the internal control system. However, public funds do not just have to be spent. Every organisation is also responsible for financial management, which ensures the use of public funds for specific purposes, and contributes to the performance of the organisation.

Each year, the heads of the budgetary institutions must declare the implementation of the requirements of efficiency, effectiveness and economy in the course of activities of the budgetary institution, by issuing a declaration on the sound functioning of the internal control system. The heads of the budgetary institutions made these statements; however, during the audits of the State Audit Office of Hungary, 90% of the audited entities did not even find the conditions for measuring performance. Thus, the conditions for the performance audit were not present.

In its 2017 Summary Report, the SAO suggested that, in order to enforce ownership control more efficiently, it would be justified to introduce indicators suitable for measuring performance, which would enable the exact evaluation of companies' public services. From 2020, a government decree lays down the rules for the establishment and operation of the internal control system for some publicly owned business associations. As part of this, a performance measurement system for the activities of the business association must be established and operated by the top manager of the publicly owned business association, applicable to a certain group of business associations.

The development and operation of an appropriate internal control system provides support to managers in achieving the organisational goals. In the framework of its advisory activity, the SAO made available to organisations using public funds the so-called self-tests. The management self-tests (for the heads of nationally owned business associations, local governments and central budgetary institutions) were completed by 1214 organisations in 2019.

It is obvious that the measurement of performance is primarily the responsibility of the organisation performing the public task, or its proprietor. The SAO acts as a catalyst in the development of the performance management of public sector organisations with its audits revealing deficiencies and good practices. It also supports its advisory activity with scientific research. Therefore, within the framework of the cooperation between the SAO and the University of Miskolc, the lecturers of the University carry out extensive and innovative research in the field of measuring the performance of public services and performance management of public service organisations. These researches not only serve the scientific basis of the SAO's audit activities, but the SAO also disseminated the first results of the research to public service organisations through articles published in the Public Finance Quarterly and other journals, as well as via trainings for the heads of the audited entities.

In the case of performance audits, the State Audit Office of Hungary also emphasised the need to measure the social impact of the actions audited. The most effective measure of the

effective use of public funds is the extent to which the stakeholders are satisfied with the measures taken. Of course, social satisfaction in the operation of organisations using public funds, achieved by satisfying the conditions of performance evaluation, is based on the fact that the organisations responsible for the implementation of the measures define the goals to be achieved in advance, use the available resources regularly, and monitor and measure the effectiveness of their actions.

The State Audit Office of Hungary sought the opinions of groups of the population receiving monitored care (in the case of children, their parents were asked) on the quality of care, which took place in the context of its audit of two very important and sensitive social systems, the 'emergency' medical response system and the system of catering for children. Furthermore, the SAO assessed the task performance of the audited entities on the basis of regularity, propriety and performance criteria, as the basic condition for effectiveness in the public sector is the regular performance of public tasks, taking into account social expectations.

Based on the audit of the 'emergency' medical response system, the SAO established that the Minister responsible for sectoral management ensured the development of comprehensive development goals for this system. However, it did not develop the tools and conditions for monitoring and evaluation, nor did it evaluate the implementation process. Measures were taken to improve emergency medical response; however, they did not ensure the right of care recipients to receive care within a period of time justified by their medical condition. The population opinion survey showed that, those using the service were satisfied with the professional standard of the medical treatment; however, they pointed out the time necessary to access medical services and the failure to provide information as problems.

In 2019, the SAO published its report on the audit of the system of catering for children concerning the period between 2014–2016. Catering for children is in the focal point of the society's interest, due partially to the vast number of those concerned and the significant amount of public funds involved, and to the importance of health preservation by the provision of food and nutrition in appropriate quantity and quality to the children. The purpose of the audit was twofold, on the one hand to examine the performance of the tasks of the local governments in this activity, and on the other hand to examine the regularity of the audit implementation of the state authorities supervising this activity.

During its audit of 69 local governments and 20 districts and district offices performing public health tasks, as well as of the Hungarian State Treasury, selected by representative sampling, the SAO found that local governments provided the catering for children as defined by law, but a significant number of them did not organise the catering for children in compliance with the policies. At the same time, the planning and execution of audits on catering for children at the Hungarian State Treasury was regular and effective during the period audited. The representative public opinion poll related to the audit showed that the main goals to be achieved by catering for children were met: nourishment of nature and composition suiting the physiological needs of children was provided to them in a timely manner.

Institutions failed to comply with the basic rules for the organisation and operation of catering for children with regard to meals provided in educational institutions during school term and, in 2016, during school holidays. In 2016, catering for children was provided effectively during school holidays. The audits of the Hungarian State Treasury on catering for children and the regularity of the planning and implementation of the audits by the district and county district offices performing public health-related functions were ensured in 2015–2016. The audit organisations have successfully carried out the audits they have planned. The population opinion poll showed that, according to the parents of those children who received catering, the nourishment of nature and composition suiting the physiological needs of children was provided to them in a timely manner.

However, the significance of these two audits goes beyond the specific findings of the audits, and draws attention to the need to evaluate the performance of public service tasks on a regular basis and from several perspectives. Only in this way can the decision-maker, including the National Assembly, be convinced of the effectiveness, efficiency and social effectiveness of the use of public funds granted.

6. Further audit and analysis activities

Every year, the State Audit Office of Hungary fulfils its statutory audit obligation, in respect of which it strives to cover all segments of public finances. In order to be conscious with this work, it draws up audit planning memorandums that guide its audit activities. In addition to the broad-based approach set out in previous chapters, covering areas such as integrity, accounting rules, asset management, the financial position, budgetary and macroeconomic aspects, it is important that other areas were also evaluated which were audited and evaluated also in 2019.

6.1. ANALYSIS OF THE STATE OF INTERNAL AUDIT

In an analysis, the State Audit Office of Hungary evaluated the activities connected to the design and operation of internal auditing, relying on the experiences of the State Audit Office of Hungary audits at local governments and institutions. The analysis pointed out that internal auditing, which is obligatory pursuant to legal regulations, could not fulfil its purpose as a first line of defence as it did not ensure the regularity of task performance and operation.

The Fundamental Law of Hungary requires that the principle of a balanced, transparent and sustainable fiscal management be enforced, and also that the national assets be used appropriately and responsibly. The State Audit Office of Hungary, in accordance with its strategic goals and on the basis of legislative authorisation, performs audits on the responsible management of public funds and assets owned by the state and local governments, as well as audits on compliance with accounting rules and the operation of the internal control system of local governments; furthermore it supports the establishment of the integrity-based, transparent and accountable use of public funds.

The analysis pointed out that the internal auditing function has a key role as it evaluates and improves the efficiency of risk management, controlling and management processes through a systematic and regulated process. With that, it facilitates the accomplishment of organisational objectives, and the regular, economical, sound financial management of public funds and national assets.

On the basis of the 61 reports published in 2016, the findings of the SAO audits, in terms of the quality and compliance of the internal control system and internal audit, showed in respect of the local governments and institutions that in the cases where the internal auditing function did not work adequately, irregularities and discrepancies were also found in the functioning of the internal control and in financial management. Therefore, it can be concluded that internal audit impacts the regular operation of the organisation as well as the lawful and responsible management of public funds and the national assets.

In its analyses, the SAO concluded that inadequately designed and operated internal audit—independently of the number of internal audits performed—did not contribute to a lawfully operating internal control system or regular financial and property management. Therefore, the proper use of public funds is a risk within the current operating framework. This is supported by the fact that risk-based operation is an indispensable prerequisite for internal auditing based on which the organisation can identify the risk areas that have the highest potential impact on its operation and on financial management requiring audit. In the public sector, the leaders of budgetary institutions need to design the internal auditing function in a way that the institution employs a management and control system ensuring regular task performance and operation.

Based on the analysis, it needs to be highlighted that the leaders of budgetary institutions are required to establish, operate and further develop an internal auditing function to support management within their integrity and management systems ensuring compliance with the rules, as in the absence of this the first line of defence cannot perform its function to protect public funds and to support management.

6.2. ANALYSIS – ADAPTATION TO CLIMATE CHANGE: SUSTAINABILITY AND COMPETITIVENESS ASPECTS

We experience the increased effects of climate change on our health, environment, flora and fauna, and economy. Based on the NCCS-2 adopted by the National Assembly in October 2018, the analysis briefly presents the effects of climate change on Hungary. Climate change has a direct impact on the demand for products and services whose consumption depends on changes in the weather. At the same time, climate change indirectly, through international agreements to reduce GHG emissions in order to reduce global warming, also has a serious impact on Hungary's economy, as it obliges economic operators to eliminate old technologies and use new ones.

Based on the objectives of the NCCS-2 and international documents, the analysis assumes that linking climate protection and competitiveness together will be one of the key challenges for every country in the coming decade. Therefore, it primarily explored the possibility of this interconnection, using the competitiveness model of the American economist Michael Porter.

The state can promote the coexistence of climate protection and competitiveness along all four components, for example, by increasing the demand for climate-friendly products and services, increasing the share of 'clean energy' in Hungary's energy mix, promoting the emergence of missing elements of the climate-friendly production system and promoting corporate social responsibility.

The analysis distinguished between the private sector and the public sector in terms of linking competitiveness and climate protection. In the case of the former, it presented the regulatory tools through which the state limits or encourages the reduction of GHG emissions. Looking for further incentives, the analysis pointed out that current programmes to reduce GHG emissions from residential consumption often set high entry thresholds (i.e. high equity). Thus, low-income households are not able to mobilise the state subsidy to make their homes, household appliances and cars more energy-efficient and less polluting. This is also a serious problem in terms of GHG emissions, as the lowest-income households often live in obsoleted homes, use outdated machines with high GHG emissions, and sometimes they use heavily polluting waste for heating. By pointing out specific opportunities, the analysis called for the launch of climate protection programmes, from which the lowest income households could also benefit.



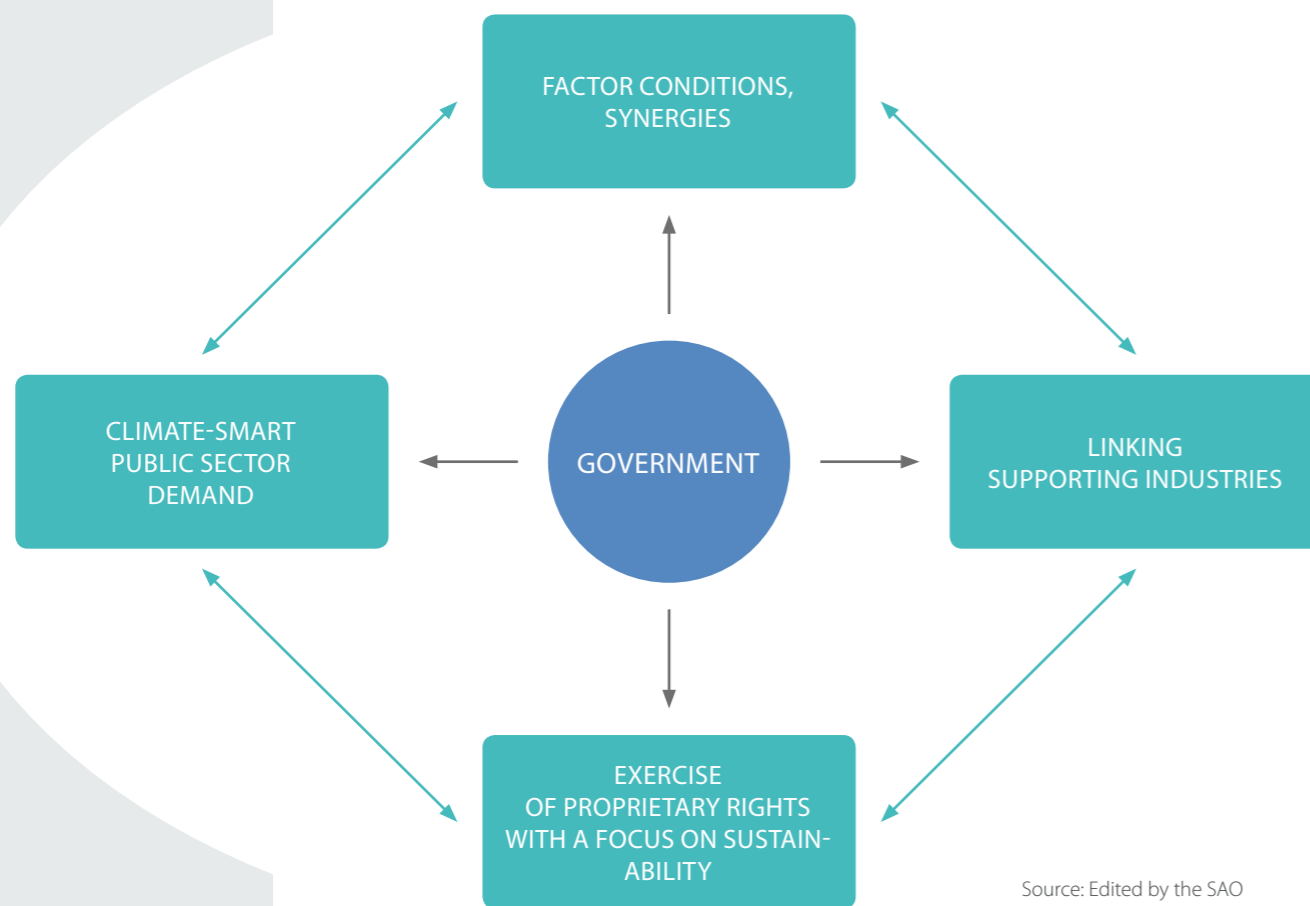
Utilisation of the SAO proposal

In order to improve the area of internal control, the SAO submitted a proposal in its 2017 Summary Report to the National Assembly, which in return entrusted the State Audit Office of Hungary in Decision No. 22/2018(X. 16.) of the National Assembly to strengthen its influence on the functioning of the line of defence.

In the public sector the government has direct and significant influence over all four elements of the competitiveness model. The analysis confirmed this also by the introduction of the sustainable competitiveness model of the public sector, the so-called 'emerald model' (figure below). It largely depends on the conscious decision of the state authorities to what extent the demand expressed in public orders takes into account the climate protection aspects. The analysis mentioned the 'green' public procurement and the application of the lifecycle cost calculation in public procurement tenders as specific opportunities in respect of this matter.

The state has a decisive influence on the factor conditions, as most of the energy production, public utility service providers and waste management companies, which are key contributors to GHG emission, are owned by the state or by local governments. Thus, it has the opportunity to realise the synergy of different developments.

THE SUSTAINABLE COMPETITIVENESS 'EMERALD MODEL' OF THE PUBLIC SECTOR



Source: Edited by the SAO

In the case of the 'corporate strategy, organisation, competition' component, the state, as the entity exercising the proprietary rights while focusing on sustainability, can make it compulsory for all publicly owned business associations to develop corporate strategies and social responsibility programmes, one of the priorities of which is climate protection.

The 'related and supporting industries' component of competitiveness is the area where the state can do much more in the public sector than in the private sector to create synergies between competitiveness and climate protection. One of the most important tools for reconciling competitiveness and climate protection is the creation of value chains in which the cooperation of individual actors ensures the climate neutrality of the entire production process. This is much easier if all actors in the value chain belong to the public sector. The analysis demonstrates programmes with significant climate protection and

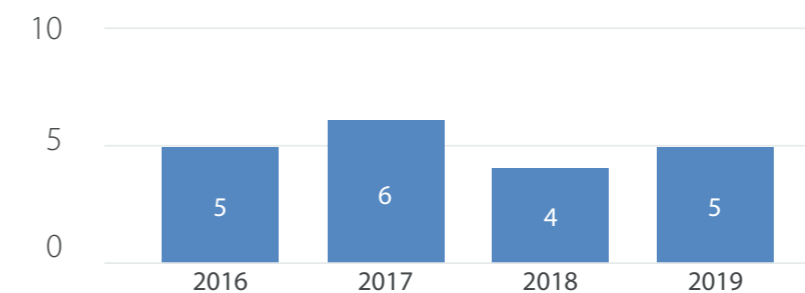
other positive impacts that would be viable in the public sector (for example, geothermic heating, energy-efficient renovation of public buildings, increased use of electric buses, recycling of waste).

A vital prerequisite for the effective implementation of climate protection programmes is to establish a definition of quantitative targets to be achieved, and to make it possible to measure the results, i.e. to provide adequate indicators, reliable data and a monitoring system that is independent from the executives. This has been achieved internationally and nationally. Furthermore, it is necessary to collect data from organisations involved in the implementation of specific climate protection programmes, which will ensure an objective assessment of the effectiveness of the programmes, i.e. their contribution to the national climate protection objectives.

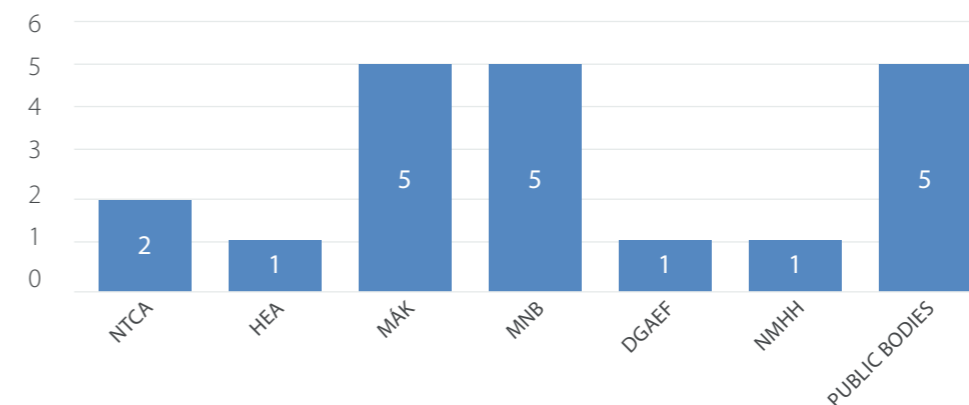
6.3. AUDIT EXPERIENCES RELATED TO AUDIT OF AUDITORS

The State Audit Office of Hungary has a broad audit mandate: it is also entitled to revise the financial management activities and operation of institutions that have supervisory or audit powers themselves. As a result of the audits of such institutions, the SAO is able to maximise its contribution to the establishment of a regular, responsible and disciplined financial management of public funds, as the results and findings of the SAO's audits—by increasing the regularity, efficiency and transparency of the activity of the supervisors—may indirectly be utilised in the operation of the entities audited by the audit organisations.

NUMBER OF AUDITS CARRIED OUT BY AUDIT ORGANISATIONS IN RECENT YEARS (INSTANCES)



NUMBER OF AUDITS CARRIED OUT BY THE SAO IN RESPECT OF THE DIFFERENT AUDIT ORGANISATIONS BETWEEN 2016–2019 (INSTANCES)*



* The table only includes audits carried out under the stand-alone plan.

In 2019, the State Audit Office of Hungary audited the regularity of the MNB's operations, the audit activities of the Treasury, the regularity of the NMHH's activities, and the Chamber of Hungarian Health Care Professionals and the Hungarian Chamber of Plant Protection Engineers and Doctors.



SAO proposal

In order to achieve responsible and transparent management of public funds, it is justified to review the legal environment in which public bodies operate. The SAO considers it worth considering the separation of advocacy tasks and official tasks, and rethinking the implementation of performing public tasks.

The operation of the Magyar Nemzeti Bank in 2017 was regulated and regular. During its financial management the central bank complied with the statutory provisions. Its activity supervising, auditing and controlling the financial intermediary system supported the regular functioning of the financial intermediary system and the protection of consumer interests. The implementation of the task included in the action plan of the Magyar Nemzeti Bank promoted the stable and safe operation of the financial intermediary system.

6.3.1. Audit experiences of public bodies

A public body is an organisation with local governance and registered membership, which performs public tasks related to its membership and the activities of its members. By delegating the performance of certain public tasks to a public body, by law, the state is in fact entrusting the (self-)governance of a given professional field to the stakeholders. One type of public body is the professional chamber, two of which were audited by the State Audit Office of Hungary in 2019.

Within the administrative duties, both chambers act as an authority in chamber authority matters related to admission, termination of membership, suspension, and restoration of suspended membership. The State Audit Office of Hungary has not yet audited the management and use of public funds of these two chambers.

The financial management of and the use of public funds by the Chamber of Hungarian Health Care Professionals and the Hungarian Chamber of Plant Protection Engineers with respect to the period of 2015–2017 was not transparent and accountable. No measures were taken to collect overdue membership fees; thereby, they did not perform their statutory duties during the period audited. The chambers' accounting reports did not provide a true and fair picture, and the publication of reports containing inaccurate data also misled the public and their members.

III. CONTINUOUS DEVELOPMENT AND BACKTRACKING OF PERFORMANCE IN THE OPERATION OF THE SAO

Ensuring organisational management based on decisions supported by up-to-date, relevant and reliable information requires the management of both the internal processes of the organisation and the effects of external factors influencing the management, activities and financial management of the organisation. Thus, in the course of the SAO's activity, the measurement of the organisational performance prevails not only in the criteria applied during the audit of the audited group. The criterion of efficiency and effectiveness; measuring the performance of the organisation alone is a condition for the target-oriented management and operation of the organisation. The implementation of the organisational mission assumes a strategic management-focused model, in which greater organisational performance can be achieved by making optimal use of the available resources in a broad sense. This model is called the SAO's capacity development model.

The main functions of organisation-level performance management are as follows:

- development of the conditionality, a framework suitable for monitoring organisational measurements and performance;
- development of measurement indications;
- substantiation of management decisions with relevant information;
- supporting strategic and other planning and development activities, also using information from analyses and feedbacks, as their evaluation provides a basis for maintaining leadership direction;
- management of the objectives and expectations and support the related communication activities;
- and provision of information on the fulfilment of expectations.

The organisation and operation of the organisational performance management system implements a well-managed organisational model.

All organisational processes contribute to the achievement of the mission of the 'well-managed organisation'. By simultaneously considering several factors and the leadership programme of the head of the organisation, the organisation forms a strategic target system for its certain activities and groups of activities. Strategic management relies on the data of monitoring and measurement of organisational processes from different aspects as well as the information created from the same starting from the creation of the target system, through managing implementation and the operation of the monitoring and feedback system. By that logic, performance management covers the entirety of the operation of the organisation.

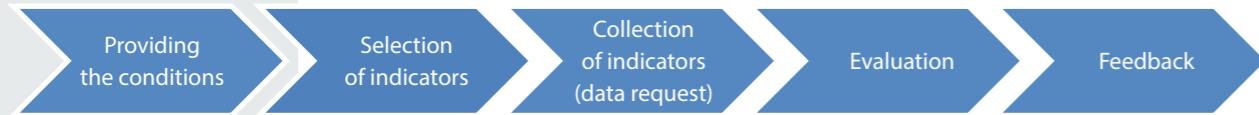
A well-managed organisation is able to create positive changes in its own operation with its own learning and its own resources; thus, it becomes an organisation providing solutions.

Nevertheless, the State Audit Office of Hungary has a dynamic and not a static structure, in which changes in the external environment or in the task performance, and internal impulses constantly inspire change. The internal structure is fundamentally stable and incorporates the organisational strategy and the fundamental values defined therein, while new operative elements and new connections are constantly being created.



A precondition for an organisation's ability to react successfully is preparedness. This preparedness is created by the organisational change management model, which is an activity based on strategic mindset that covers all levels and processes of the organisation, and provides a coordinated response to external and internal challenges.

Change management is needed to ensure the best integration of the changes implemented, and to avoid divergence and reversion. Based on the principles of change management, the State Audit Office of Hungary continuously monitors its own performance using the following process:

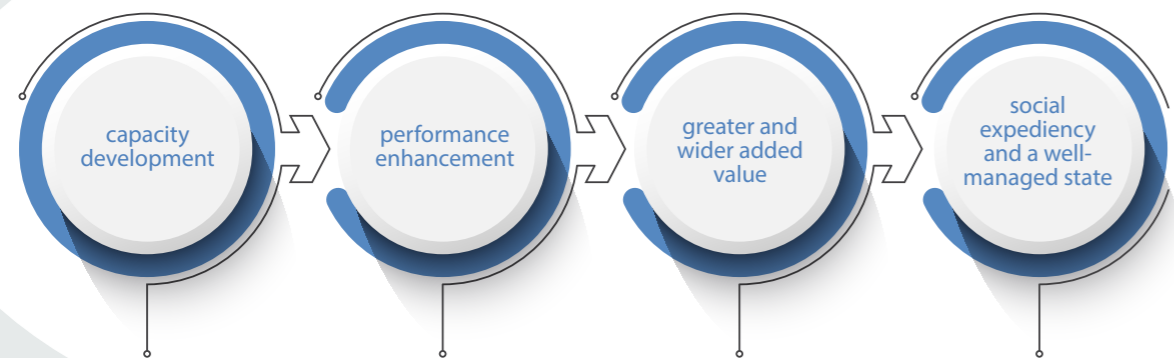


What does capacity development mean?

In general capacity means the totality of the elements determining the performance of a system. Capacity development means the development, renewal, modernisation of the already existing capacities, that is, different resources (knowledge, skills, technologies etc.). The aim of capacity development is to increase organisational performance and improve the efficiency and effectiveness of the organisation.

In this way, the SAO carries out similar self-audits of its own activities and processes as it performs performance audits in relation to the audited entities. The basis of the self-audits—similarly to the performance audits of the audited entities—is also the SAO's methodologies and international standards. Thus, the methodologies of the State Audit Office of Hungary also include international practices and experience, thus providing comprehensive and effective tools for the SAO to provide a solution during audits to the audited entities regarding the efficient, effective and economical use of public funds.

Taking the above into account and applying it, the State Audit Office of Hungary has developed a dynamic capacity development model in order to audit and monitor its performance as efficiently as possible. The State Audit Office of Hungary, as an exemplary organisation, develops its available capacities on a continuous basis in order to use public funds and operate in as efficiently and effectively as possible. As a result, the utilisation of the SAO's work (audits and analyses) can expand through the growth of social trust and the increase of macroeconomic indicators affecting the performance and effectiveness of the national economy.



We distinguish three aspects of capacity development in the model compiled by the SAO:

1. capacity development of the scope of activity,
2. capacity development of professional resources,
3. organisational capacity development.

The capacity development of the scope of activity includes the institutional, legal and statutory framework of the SAO's operation. The common feature of these tools is that they can be interpreted at the system level, i.e. they include processes characteristic of the SAO as a whole, as well as elements influencing and developing the external environment, i.e. other tools with a national and international impact and a decisive role in shaping the legal and regulatory environment.

During the capacity development of the scope of activity the SAO also contributes to the reduction of risks to the national economy. A risk to the national economy is any process, the occurrence of which may bring a negative impact on the performance of the national economy with an unknown probability or to an unknown extent. The State Audit Office of Hungary continues to strengthen its advisory activity pursued in the field of identifying national economy risks with its audits carried out based on the evaluation of the risks of the particular sectors in terms of exposure to threats.

The term 'professional resources' covers the skills and knowledge required for the supreme audit institution to fulfil its obligations for carrying out audits. The development needs of professional resources can, of course, vary depending on the different types of audits (financial, compliance, performance) performed by the supreme audit institution.

The most important tools used in the capacity development of professional resources are university collaborations, the development of the SAO's internal knowledge base, and the continuous development and expansion of the system and educational content of internal trainings.

The organisational capacity development includes the optimisation and updating of processes within the organisation, such as HR activities, process development, renewal of control processes and procedures, and modernisation of the IT system. A common feature of these processes is that they help the State Audit Office of Hungary achieve its already set strategic goals by enabling sounder operation and use of resources, thus increasing the performance of the organisation.

In order to achieve the desired quality level, supreme audit institutions need to prioritise and improve their resources, as well as their capacity development. However, in order to be able to monitor the implementation of the capacity development goals set on the basis of the target system, tools providing backtracking and auditing are also needed, which has two elements; one is self-assessment, the other is peer review.

If the expected results have been achieved, the organisation can set and start implementing new capacity development goals in order to carry out its activities as efficiently and effectively as possible. Thus, the SAO's capacity development model enables capacity development goals and priorities to change continuously and dynamically.



Outlook for 2020

The State Audit Office of Hungary plans to hold the IX. EURO-SAI-OLACEFS joint conference in September 2020, the aim of which is to strengthen cooperation between INTOSAI regional organisations. The central theme of the conference will be to increase the impact of the SEO's work, i.e. the capacity development, during which the supreme audit institutions of the participating countries can get acquainted with the capacity development methods and tools aimed at increasing their performance and the impact of their activities.



The details of the IX. EURO-SAI-OLACEFS joint conference can be accessed by clicking here, or it can be downloaded from the SAO's website (www.asz.hu) using the QR code.

What does the term 'peer review' mean?

Peer review is a method of analysing the efficiency of an institution's operation, in which case the evaluation is provided by independent auditors of partner state audit institutions. In this case, an external professional and expert assessment process can be used to achieve more efficient organisational operation and the goal of the audited area of the organisation, which can also form the basis for the transfer of professional knowledge.

Voluntary audit of a state audit institution of a particular country by a voluntary audit of other state audit institutions—in general or in a specific professional field. Participants themselves decide on the content, scope, and method of the audit and the utilisation of the results.



1. Development of the technological and human environment

The requirement to apply modern IT solutions is already set out in Article XXVI of the Fundamental Law. This article of the Fundamental Law states that the state strives to apply new technical solutions and scientific results in order to increase the efficiency of its operation, raise the standard of public services, improve the transparency of public affairs and promote equal opportunities.

In its report to the National Assembly on its professional activities and operation in 2018, the State Audit Office of Hungary stated that it set the goal of creating a digital audit environment in order to increase the efficiency of audits.

In its Decision No. 44/2019. (XI. 19.), further to accepting the SAO's report, the National Assembly recognised the State Audit Office of Hungary's activity in 2018 to facilitate the transition to the digital auditing environment, and expressed the intent that it supports all other activities of the State Audit Office of Hungary to promote the provision of data from an authentic source as a result of digital data processing, and the authenticity and appropriateness of audited entities' data provision and reporting in compliance with the legislative provisions.

The dynamically changing environment presents two great challenges for the SAO: one of them is leading by example and the other one is meeting the organisational challenges of digitisation.

Digitisation and digital transformation is a task at the organisational level, as well as a change of culture, during which the organisation introduces new methods and tools, taking advantage of the opportunities provided by technology. Tracking and exploiting explosive development requires a paradigm shift, new approaches, new methods, new thinking from organisations, keeping in mind that digitisation is a tool and not a goal.

The SAO has created a vision for a complex digital control environment, in which it builds on changes in the domestic, international and technological environment. The SAO has identified the new challenge that the segments of new, modern technologies and INDUSTRY 4.0 create opportunities for the state audit institutions, for which they have to prepare in a new way. The changes are felt increasingly in the case of the state audit institutions, the digital environment of the auditee and the auditor is changing at the same time. We have to develop the internal technological environment while adapting to the external audit environment, as well as building the appropriate channels to stakeholders and developing contact points, platforms.

A systematic work has been started to make the SAO receptive to new technologies.

The SAO intends to become a model organisation in terms of digitisation, which also includes prioritising tasks in order to use public funds efficiently and cost-effectively, and setting implementation directions accordingly. We have to develop the internal technological environment while adapting to the external audit environment, as well as building the appropriate channels to stakeholders and developing contact points, platforms.

Considering its tasks and mission, the SAO defined two basic pillars with regard to digitisation:

1. Introduction of state-of-the-art solutions for interactions and communication, which at the same time serves the easier qualitative data provision of auditees and strengthens utilisation.
2. A stable, modern IT infrastructure is a prerequisite for modernisation and efficient operation.

Digitisation requires an appropriate organisational culture in addition to providing technological opportunities. In preparation for this transformation, the SAO has adapted a learning organisational model, operating a complex change management framework, which creates an appropriate basis for the management of technological challenges and opportunities. However, change is only realised by people, so digitisation can only be successful if employees are able to apply new tools, new methods and approaches, and create new things. Therefore, the SAO gives priority to the development of digital skills within the organisation in order to introduce digital thinking within the organisation.

It is important to see that in the new work environment the organisation is engaged in novel work activities in which organisational and technological change has taken place and is taking place at the same time. The dynamic environment determines the activities of the SAO, to which the audit methodologies as well as the human resources must fit.

In the field of digitisation, the principle that 'whoever lags behind is left out' is increasingly true. The first step in the implementation was to review and redesign the processes so that they could be digitised and robotised. This allows the efficient performance of the tasks later on.

In addition to rethinking processes, another priority is to assess and develop the related human capacity, as new challenges also require a new way of thinking.

One of the most complex and at the same time the most affected areas from the point of view of digitisation is data retrieval and, in this connection, communication with the auditees. In order to facilitate data provision and to make it cost-effective—paperless; therefore, requiring fewer public funds—, the SAO established an Electronic Data Provision System; thus, it is able to receive thousands of documents at the same time through the company gateway and the client gateway interfaces. The data request is carried out

What does INDUSTRY 4.0 mean?

The name refers to the Fourth Industrial Revolution, which is a period that brings about an ever closer intertwining of information technology and automation, and consequently, a fundamental change in manufacturing methods. The real-time availability of all relevant information and that each object is connected to a network are important; this way, the optimal value stream can be determined from the data at any given time.

according to uniform principles, with transparent documents, keeping in mind the quality assurance, and it also supports the reduction of the workload of the auditees.

Instead of on-site audits, with the expansion of digitisation, the SAO implemented methodological developments and process organisational solutions as a result of which the Audit Office was able to reach settlements where no SAO audit has taken place since 30 years. Real-time audits have already started in a preventive manner in the municipal sphere.

The next step is the field of evaluation of received documents, where robotic techniques may gain more and more space in the future. Big-data processing tools are applied for the first time in the process of turning documents into evidence.

Within the framework of quality-oriented operation, the SAO strives to fill a given position with the most suitable person available, thus ensuring the availability of the necessary competencies. To this end, it strives to develop a conscious career management activity.

EXAMPLES OF THE DIGITISATION DEVELOPMENTS OF THE STATE AUDIT OFFICE OF HUNGARY FROM 2019



In accordance with all these, and in accordance with the basic principles of the organisation, the SAO's career management system was reviewed in 2019. Based on the function of career management we identified four main possible levels (trainee auditor, auditor, management trainee, manager), taking into account the areas of responsibility. The performance evaluation and resource allocation system interrelating with the 4 main levels, the mentoring system supporting the levels, and the training system keeping these level-based systems together form the career management system, which were renewed during the year in conjunction with the trainee concept and the management training system. With regard to digitisation, it was a huge step forward for the HR that the paper-based performance appraisal was replaced by an electronic evaluation, and changes were introduced for a group of managers for approving the changing of the day-off requests and replacements by electronic means.

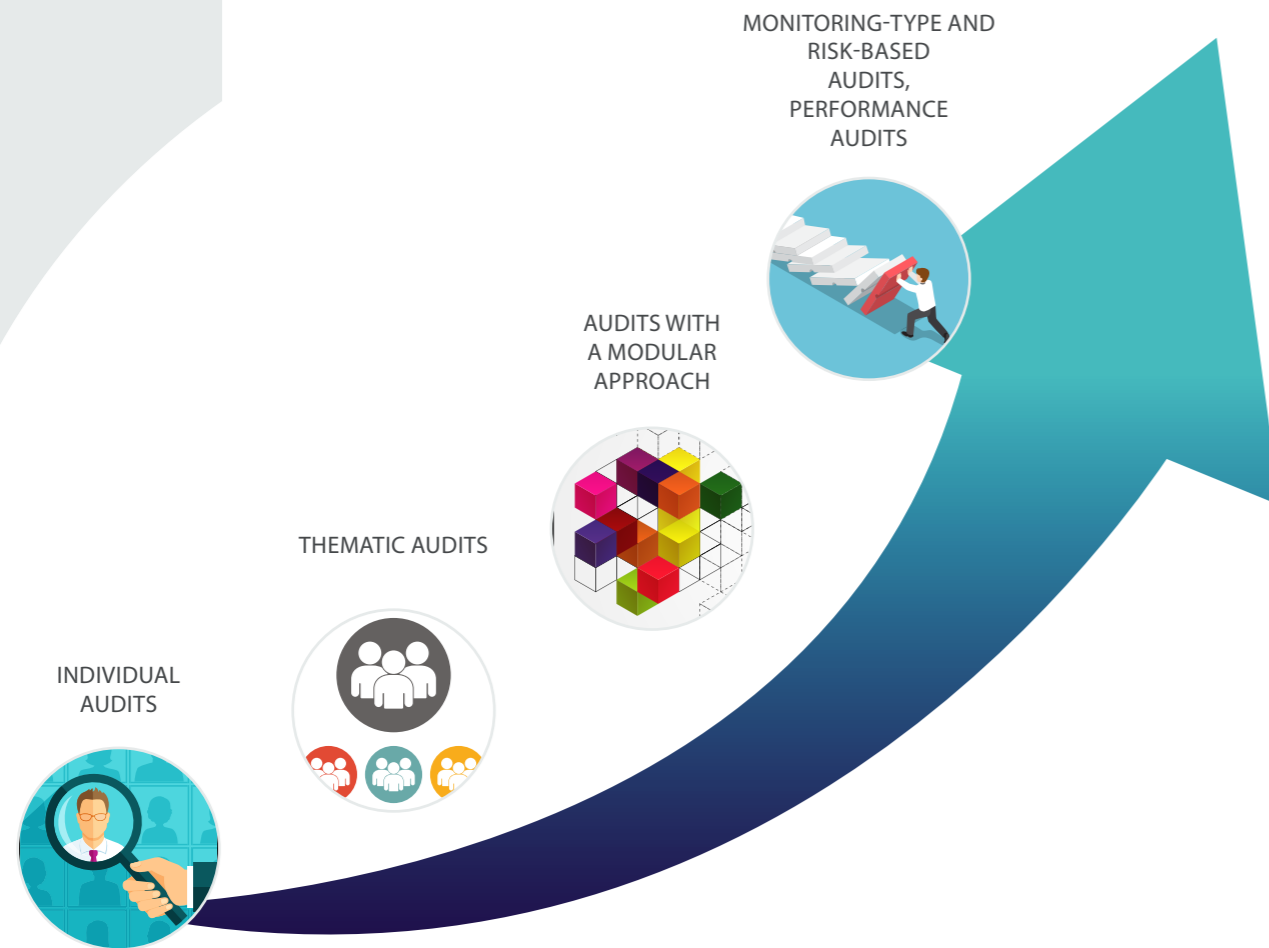
The renewed concepts make it even more possible professionally to enforce the principle of 'the right person in the right place', which contributes to quality work, thus increasing the efficiency of the SAO. All of these contribute to the performance of the SAO's core business at a high professional level for the audit of public finances. The purpose of auditing public finances is to contribute to their transparency and orderliness, as well as to a 'well-managed state', ensuring the adequate use of public funds for citizens. Digitisation processes promote the response capacity of the organisation, speed up its processes, which can also increase the efficiency of the organisation, which is to support the appropriate use of public funds by the monitoring activities.

Organisational development measures support the further increase of the efficiency of the State Audit Office of Hungary and thus the efficient and effective use of public funds. The efficiency-enhancing organisational development measures started in 2018, in the framework of which the SAO was the first to offer 'experienced and well-cultured' business professionals to reduce the labour shortage in the private sector. In order to provide a good example the measures taken for the increase in efficiency were integrated by now into the resource planning of the SAO, became an integral part of its HR strategy and generated changes in the content of job descriptions. As a combined effect, as a result of technological and methodological renewal, we have freed up resource capacity for the labour market. On 15 December 2018, in consideration of the provision for the salary multipliers and personal allowances pursuant to bill No. T/3633, a recruitment stop was ordered for any further employments. Thus, the average statistical headcount of 593 as of 31 December 2018 was decreased to 499 by 31 December 2019, by about 16%. Despite the reduction in the number of employees, the organisation is performing better and better in the transition to digitisation, thus facilitating the operation of a well-managed state.

2. Audit processes and methodological developments

As a result of the continuous development of audit methodologies, audits became more efficient and effective, and the added value of the SAO's work increased.

Pursuant to the provisions of the Act on the State Audit Office of Hungary, the President of the SAO determines and publishes the rules of procedure and methods of the audits conducted by the State Audit Office of Hungary. The development of the methodology, as a kind of norm-setting, is an important and responsible task, the weight of which can be clearly perceived through the steps of the development of audits and methodological evolution.



Based on the statutory tasks of the SAO, the State Audit Office of Hungary typically carried out individual audits until 2011, which methodology, given that the audit plan was prepared and approved separately for each audit, resulted in many audits, but still in a limited number of them.

In line with the strategic goal of increasing audit coverage, the SAO subsequently developed thematic audit plans, which were already suitable for auditing a number of organisations with the same characteristics and operating in the same legal environment. Thematic audits saved time and resources for the State Audit Office of Hungary, and allowed for the further enhancement of the audit coverage while conducting more efficient and effective audits. This opened up the possibility and the condition was met for summarising and structuring the experiences of the thematic groups, forecasting the risks and identifying the relevant points for the present.

The focus was now on the issue of further efficiency gains, i.e. the question of how the audit could be made unique during the thematic audits, so that any detected irregularities and risks could be evaluated in more depth, in detail and in their context. That is, that a different materiality criterion would apply to each auditee.

The solution was the modular approach, which ensured that even within a thematic audit it was possible to have an individual audit focusing on the risks identified in the given organisation and on the irregularities that arose. The audit plan modules can be grouped into particular audits depending on the risk assessment, capturing the materiality and providing the greatest possible added value during the audits for a given organisation. As a result of this methodological development, audits have become even more efficient and have provided an opportunity to define evidence even more precisely and make it more targeted.

The introduction of the system of pivotal documents also served to strengthen the efficiency aspects of the audit activity, which made it possible to prioritise materiality as a criterion. On the other hand, it has greatly contributed to the consolidation of the basic principle of efficiency, as the SAO can reach a conclusion regarding the auditee's fundamental regularity in a shorter period of time. For the auditees, the scheduled request for documents—in a customer-friendly way—reduces the burden of data provision. All these methodological developments also contributed to the more balanced performance of the SAO's audit assignments, to the further technological developments, and to making the same measurement methods used previously more emphasised.

A key step in terms of audit methodology was the development and implementation of risk-based and monitoring-type audit methods, which were based on the evaluation methods created by the new technology.

Risk-based audits provide an opportunity for the SAO, by evaluating pivotal documents, to obtain an objective picture of the risk areas at a wide range of auditees by segmenting them on the basis of the same characteristics. Based on the results, it is possible to draw the attention of the managers of the audited entities to these risky areas, and it also creates an opportunity for the in-depth audit to become more targeted.

As a first step, the SAO conducted monitoring-type audits at local governments, based on the data of the Hungarian State Treasury. By applying the method, the audit coverage can be significantly increased, and it also allows the evaluation of previously not audited segments. On the basis of the evaluation of local governments' annual financial statements, interim budget reports and balance sheet data, which are available in the central information system, the monitoring system indicates which are the local governments where unfavourable economic processes have taken place. According to the monitoring-type audit methodology, the SAO is able to identify financial and management risks and irregularities by evaluating a small number of targeted documents that fully cover a group of auditees, and then to improve the regularity and efficiency of the use of public finances and public property by drawing attention to these findings.

Performance audits are an increasingly important segment of the State Audit Office of Hungary's audit activity, also taking into account the fact that in Hungary the law requires the provision of economical and sound management of public finances and national assets. Accordingly, in connection with the audit of each area, the SAO regularly assesses whether the conditions for conducting a performance audit are met. If the conditions are met, the audit will be planned and conducted in several stages if necessary.

While in the case of the regularity audit sub-type of the compliance audit the source of the criteria is always the legal regulation, legal instrument or contract, for the propriety audit sub-type and the performance audit the criteria are not limited only to a provision in a statutory or other legal instrument.

The performance audit shall make findings and draw conclusions in relation to the fulfilment of the criteria of effectiveness, efficiency and economy—as reference values—of the audited subject. The State Audit Office of Hungary supports the operation of a 'well-managed state' through its performance audits.

3. Assessment and evaluation of the State Audit Office of Hungary's internal control system

Based on the survey of the internal control system of the State Audit Office of Hungary, we established that the operation of the internal control system of the SAO in 2019 was at a high level, similar to the previous years. The established and functioning internal control system provides sufficient assurance that the institution continues to operate economically, efficiently, effectively and in accordance with legal regulations.

The internal control system is an inseparable tool of organisational management, a set of different methods, procedures and tools, the efficient operation and development of which is essential for the achievement of management, and thus for the organisation's goals, and for the prevention, detection and correction of obstructing events.

In order to measure the internal control system at the organisational level—by analogy with the annual management evaluation in accordance with the Internal Control System Decree—, the managers of the organisational units of the SAO were reported, and the individual pillars of the internal control system were also evaluated separately.

The evaluation of the design and operation of the internal control system is supported by a checklist, which covers all five pillars of the internal control system and is also suitable for the individual evaluation of the pillars. The evaluation of the internal control system functions as a kind of self-test, as by filling out the checklist and evaluating it according to the defined indicators, the management of the State Audit Office of Hungary gets a picture of the quality of its own internal control system, similar to management statement in accordance with the Internal Control System Decree.

Each pillar was evaluated as follows.

- a) The control environment in 2019 was basically characterised by stability, but in terms of the digital transformation it was renewed. In addition, the amendment of the SAO Act required the harmonisation of the organisational and operational regulations, as well as the individual internal management tools.
- b) In terms of the operation of the integrated risk management system, it can be stated that the organisational units assessed, evaluated and managed the risks, and all this was also ensured at the organisational level.
- c) In the area of control activities, responsibilities were adequately demarcated in the internal management tools and job descriptions. With regard to financial and real processes, the SAO's management tools ensured the authorisation and control procedures, the regularity of access to documents and information, and the regularity of reporting procedures by defining responsibilities. The measures taken in connection with incidents violating the organisational integrity were aimed at preventing its future commission, correcting the deficiencies and removing the obstacles hindering the achievement of the set goals.
- d) The Management Information System (MIS) acted as a tool of the information and communication system on an organisational level, ensuring the flow of essential information. In addition, each manager developed and operated their own management information systems. Moreover, the State Audit Office of Hungary ensured a remarkable level of transparency regarding its day-to-day activities and tasks again in 2019.



- e) As part of the general monitoring system, the SAO operated a system of internal audit to ensure the monitoring of the implementation of its activities in both the auditing and administration areas. The President of the SAO ensured the establishment and adequate operation of this internal audit independent of operational activities and provided the necessary resources for the operation of the internal audit. The internal audit is well integrated and regulated within the organisational hierarchy. The activity is performed by an internal auditor under the direct supervision of the President of the SAO, who is responsible to report to the President of the SAO.



FINANCIAL MANAGEMENT OF THE SAO IN 2019

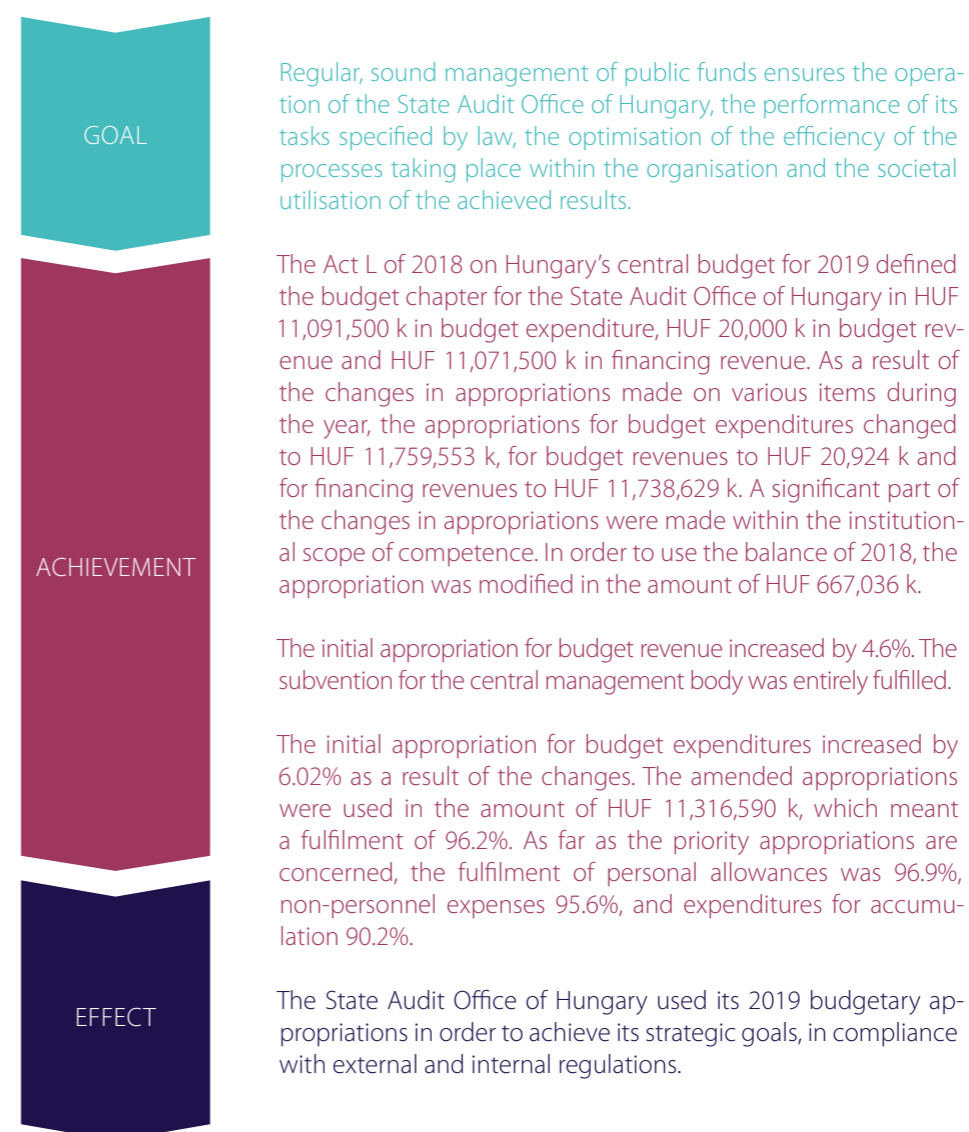
1. Financial statement of the State Audit Office of Hungary

In accordance with its strategy, the State Audit Office of Hungary defined as its fundamental value features for its own operations such as efficiency, effectiveness, economy and sustainability. The SAO managed the public property made available to it for the performance of its tasks specified by law in a regular, optimal manner, keeping in mind economic operation and sustainable development in 2019 as well.

According to the independent auditor's report concerning the 2019 Annual Financial Statement of the State Audit Office of Hungary, the Statement provides a true and fair view of the implementation of the 2019 budget, its financial situation as of 31 December 2019 and of the results of the fiscal year's management.

PRESENTATION OF THE FINANCIAL SITUATION OF THE STATE AUDIT OFFICE OF HUNGARY IN 2019

EVOLUTION OF APPROPRIATIONS, REVENUES AND EXPENDITURES



GOAL

The strategic goal of the State Audit Office of Hungary is to preserve the value of the assets belonging to the national assets under its management, and the responsible management of them. The strengthening of sustainability, defined as a fundamental value in the SAO's strategy, is achieved by giving priority to more environmentally friendly products and working methods, and by creating healthy working conditions. Another strategic goal of the SAO is to optimise the efficiency of the processes taking place within the organisation and to value the societal utilisation of the achieved results.

ACHIEVEMENT

The total amount of the balance sheet of the State Audit Office of Hungary prepared as of the balance sheet date of 31 December 2019 was HUF 4,210,833 k, which is 4.05% or HUF 163,947 k more than the amount as of 31 December 2018.

The stock value of fixed assets invested belonging to national assets increased by HUF 365,113 k compared to the previous period due to the increase in the stock of intangible assets and tangible assets. A significant part of the investments came from the acquisition of software, licences and IT equipment, which serve the implementation of the SAO's digitisation plans and increase the efficiency of audit tasks. In addition to upkeeping the real estates, investments and renovations were undertaken to serve energy-saving operation and climate protection through developments for the use of renewable energy sources.

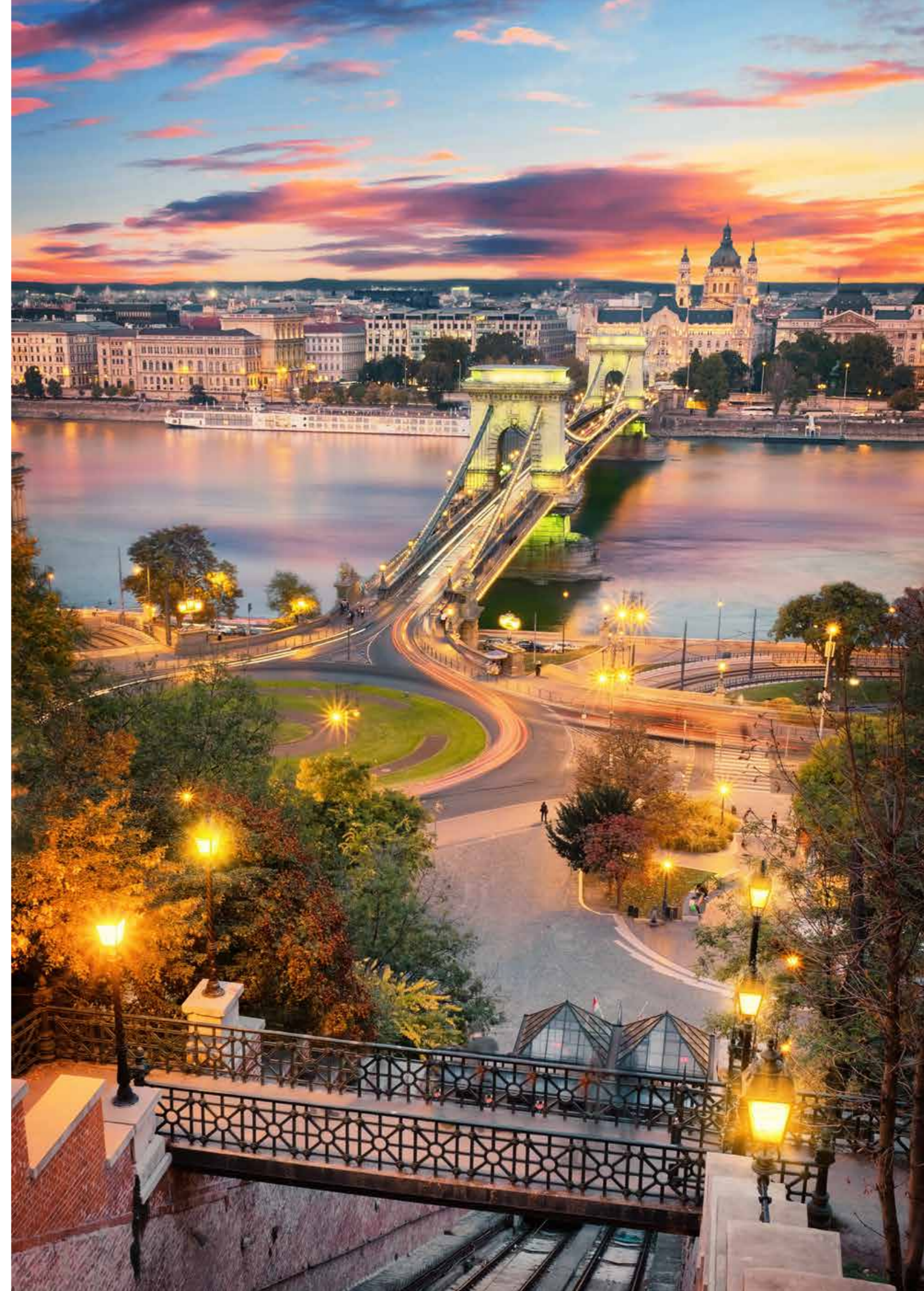
The closing balance of cash and cash equivalents, accounts receivable, special asset settlements, prepayments and accrued income decreased by a total of HUF 201,166 k compared to the opening value, largely due to the variation in stocks of funds and equivalents.

Equity increased from HUF 2,975,627 k to HUF 3,414,370 k as a result of the HUF 438,743 k positive balance sheet profit in 2019 as a result of the favourable development of accrual-based revenues and expenses. The decrease in liabilities by HUF 58,544 k was also a positive phenomenon, while the amount of Accruals and deferred income decreased by HUF 216,252 k.

In order to observe bureaucracy reduction factors, the SAO removed its cash desk and discontinued all cash payments in its own organisation. The close-down of the cash desk, which required a physical presence, and the replacement of cash with electronic means of payment resulted in savings in human resources and costs.

EFFECT

As a result of the sound financial management of the State Audit Office of Hungary, the value of its national assets increased. As a result of developments performed by the SAO started in previous years, its objectives to promote sustainable operation were achieved by conserving human, social, natural and economic resources. The collection of indicators and markers that affect organisational performance according to different organisational processes allows for a summary evaluation of a given area of the organisation. The results of the individual evaluation of all indicators related to each process provide an overall feedback on the planning and organisation of the process and the efficiency of its implementation. The measures taken and the results achieved for sustainable development and cashless operation serve as an example for all public institutions, thus having a positive impact on society.





ANNEXES

ANNEX I: DUTIES OF THE STATE AUDIT OFFICE OF HUNGARY

Statutory duties of the State Audit Office of Hungary

The SAO Act highlights the following in terms of the fields to be audited.

The SAO audits:

- in the framework of auditing the financial management of public finances: the operation of the body managing the central budgetary chapter and the budgetary institutions categorised into such chapter, the use of centrally managed appropriations belonging to the chapter and of chapter-managed appropriations, as well as the financial management of the local government, minority local government and their association,
- in the framework of the resources originating from public finances: economic organisations using the central budget for their financial management and the utilisation of subsidies or funds granted free of charge for specific purposes from public finances,
- in the framework of auditing the management of national assets: the management of assets within public finances, financial management of the assets, the activity of economic organisations owned by the state (or owned partially by the state) or majority-owned by local governments in the field of preserving and increasing assets, compliance with rules applicable to the alienation and encumbrance of assets within public finances, and may audit the property management of organisations owned by the state or local governments (or owned partly by the same),
- the final accounts prepared on the implementation of the central budget,
- the activity of the state tax administration and local governments in terms of taxation, other revenue generating activities of the same as well as the activities of the customs administration,
- the financial management of the Magyar Nemzeti Bank and the activities thereof not included in the scope of its core tasks, as well as the financial management of the foundation established by the same,
- financial management of parties and party foundations,
- the utilisation of subsidies granted to church organisations from public finances for purposes other than religious life.

The SAO also provides an opinion regarding the central budget appropriation bill as a specific task.

Pursuant to Paragraph (7) of Section 5 of Act LXVI of 2011 and Section 90 of Act CXCV of 2011, the SAO audits the final accounts presenting the implementation of the central budget on an annual basis. Already in the audit carried out for the year 2015, 100% of the expenditures and revenues of the central subsystem could be covered by the audit, owing to the introduction of the new audit methodology. The State Audit Office of Hungary achieved this coverage during the audit of the implementation of the budget of 2016 as well. Pursuant to Paragraph (1) of Section 5 of Act LXVI of 2011, the SAO provides an opinion regarding the planning of the central budget on an annual basis, as well.

Due to the prime importance of exercising proprietary rights over state property, the State Audit Office of Hungary carries out audits pursuant to Subparagraph a) of Paragraph (4) of Section 5 of Act LXVI of 2011, Paragraph (4) of Section 3 of Act CVI of 2007, and Paragraph (1) of Section 14 of Act LXXXVII of 2010 on an annual basis.

With regard to the fact that audit experiences showed, amongst others, that the enforcement of proprietary rights in the case of local governments and business associations owned by the same are, on many occasions, weak, the majority of local governments do not control the operation of entities adequately, the audit of task performance is typically omitted and that the use of funds provided for the task performance of internal audit is not subject to proprietary control. The State Audit Office of Hungary proposed a recommendation for the comprehensive and conceptual renewal of this field. The recommendation was also supported by the Government. Besides the foregoing, the State Audit Office of Hungary developed a unique self-test system. The peculiarity of such system lies in the fact that it also allows local governments not yet audited by the SAO to also improve the regularity of their operation.

The State Audit Office of Hungary continues to audit the regularity of the financial management of parties receiving budget support pursuant to Paragraphs (1) and (3) of Section 10 of Act XXXIII of 1989 in every two years in the framework of lawfulness audits. In relation to the foregoing, based on the experiences accumulated in the past years, the scope of its audit obligation continued to expand in 2003: in the case of foundations engaged in scientific, academic, research and educational activities in support of political parties, the SAO conducts biannual audits on the lawfulness audit related to the financial management of foundations that have been granted budget support from the central budget pursuant to such law.

The scope of the statutory audit obligation of the State Audit Office of Hungary continued to expand in 2013: emphasis was laid on the transparency of the campaign costs of the election of members of the parliament (Paragraph (1) of Section 8/B and Paragraph (2) of Section 9 of Act LXXXVII of 2013) and auditing the costs of election proceedings. Pursuant to regulations, the State Audit Office of Hungary shall carry out such audits per each election. The costs of implementing state tasks related to the preparation and conduct of elections and the other costs related to the activities of the electoral organs are to be provided from the central budget to an extent determined by the National Assembly. The State Audit Office of Hungary shall inform the National Assembly of the use of such funds.

The amendment of Act CXXXIX of 2013 on the Magyar Nemzeti Bank of 2016 set forth that the financial management of the foundation established by the MNB is to be audited by the State Audit Office of Hungary. In excess of its audit assignments, the SAO also fulfils other duties. Thus, the Act on the Magyar Nemzeti Bank sets forth that the chairman of the MNB shall request the opinion of the president of the State Audit Office of Hungary prior to the election of the auditor of the MNB and the initiation of the removal of such person.

The State Audit Office of Hungary audits the financial management of the Compensation Fund set forth in Act CCXIV of 2015 on certain damage compensation measures taken in order to strengthen the stability of the capital market (Quaestor Act), which was established to protect the owners of bonds and which is managed by the Board of Directors of the Investor Protection Fund (as of 2014, the SAO also audits the Resolution Fund pursuant to Section 130 of Act XXXVII of 2014).

Decisions of the National Assembly

Changes in the economy, the well-defined, but ever expanding scope of activities of the State Audit Office of Hungary as well as the expansion of tasks caused by the economic environment poses challenges to the SAO on a continuous basis. The National Assembly defines the special audits and professional support needs, in the course of which the work of State Audit Office of Hungary may bring added value to the improvement of financial management with public property, as well as the use and protection of the same in decisions.

In Decision No. 35/2009 (V. 12.) of the National Assembly and Decision No. 34/2015 (VII. 7.) of the National Assembly, the National Assembly recognised the implementation of the activity of State Audit Office of Hungary aimed to map corruption risks and the activity of the same carried out for the spreading of integrity-based organisational culture. As the development of the foregoing, the National Assembly supported that in terms of the entities concerned by the financial management of public funds and public property



the State Audit Office of Hungary shall broaden its advisory activity related to management systems and support the ethical public funds leadership training.

In Decision No. 35/2009 (V. 12.) of the National Assembly, the National Assembly agreed that the State Audit Office of Hungary audit the fields posing corruption risks in accordance with its strategic goals and implement the headline project already approved (aka Integrity Project) aiming to discover corruption risks. The National Assembly also declared that, by implementing the provisions of Decision No. 43/2005 (V. 26.) of the National Assembly, it transformed the Public Finance Quarterly into a quality journal, in relation to which it invited the State Audit Office of Hungary to continue its consultancy and professional influencing activity and curating the Public Finance Quarterly.

In Decision No. 41/2013 (V. 27.) of the National Assembly, the National Assembly supports the participation of the State Audit Office of Hungary in the activity of the INTOSAI Development Initiative (IDI) of the International Organisation of Supreme Audit Institutions (INTOSAI), and the State Audit Office of Hungary providing professional support as donor, with particular attention to Hungarian foreign affairs strategy.

In Decision No. 41/2014 (XI. 13.) of the National Assembly and Decision No. 21/2016 (X.13.) of the National Assembly, the National Assembly recognised and supported the social responsibility assumed by the State Audit Office of Hungary in the development of financial literacy and the expansion of financial awareness to the entire society.

The SAO fulfilled the professional support request pertaining to the preparation of the organisation of the 2024 Olympic Games in Budapest (Decision No. 31/2015 (VII. 7.) of the National Assembly), in 2016 and 2017.

In Decision No. 11/2017 (VI. 14.) of the National Assembly, the National Assembly imposed the task on the SAO to improve the audit methodology of the entities conducting audits in the public finances system and to review the study materials concerning the audits.

ANNEX II:

AUDITS PRESCRIBED BY LAW TO BE CARRIED OUT ANNU- ALLY, BIANNUALLY, OR THOSE RELATED TO OTHER EVENTS

The State Audit Office of Hungary, as the supreme financial and economic audit organisation of the National Assembly, is a key institution of the democratic institutional system. Assuming this very role the SAO provides opinion on the budget appropriation bill submitted to the National Assembly each year, and prepares an analysis for the Fiscal Council for providing opinion on the budget appropriation bill and the version of the bill before voting. The SAO evaluates the implementation of the central budget in the framework of the audit of the final accounts, during which it draws substantiated and comprehensive conclusions on the operation of public finances as a whole.

In order to fulfil its statutory audit obligation every year, the State Audit Office of Hungary prepares half-yearly audit planning memorandums and carries out its audit activities on the basis thereof. These technics ensure that the State Audit Office of Hungary complies with its legal obligations and, at the same time, identifies long-term focuses based on the results of risk management.

With regard to 2019, the SAO performed the following annual audits required by law, to be performed every two years and linked to other events:

- **Regularity audit on the activities related to the exercise of proprietary rights over state property**
The State Audit Office of Hungary, in order to facilitate responsible management of public property and in accordance with its legal obligation, annually audits the activities related to the exercise of proprietary rights over state property. With the audit, it contributes to the strengthening of state control over assets, responsible and regular property management, the improvement of the performance of tasks aimed at the protection of state property, utilisation in the public interest, and the substantiated preparation of decisions for its future development. In doing so, it supports the practice of a well-managed state and provides society with an objective picture of the implementation of responsible management of public property.
- **Financial regularity audit on the lawfulness of the 2016–2017 financial management of political parties receiving budget supports**
Based on Subparagraph (a) Paragraph (11) of Section 5 of the SAO Act, and Paragraph (4)–(5) of Section 4 and Paragraph (1) and (3)–(4) of Section 10 of Act XXXIII of 1989 on the Operation and Financial Management of Political Parties, the SAO conducted its audits for the lawfulness of the financial management of political parties receiving budget support in 2016–2017 at the Fidesz–Hungarian Civic Alliance and at the Christian Democratic People's Party. The State Audit Office of Hungary has published the reports. It is a basic factor from the point of the clarity of Hungarian political life, the reduction of corruption risks, and the use of public funds and public property available for parties that the financial management of political parties be lawful, accountable

and transparent. It is important that citizens get a true and fair image of the financial management of political parties through the financial statements of the same. It is of crucial importance that the parties involved in the exercise of democratic public authority, which use the public funds, should act in compliance with the statutory regulations, and their financial management should serve as an example to other organisations as well. This can contribute to the soundness of public finances in Hungary and to the reduction of corruption risks. Therefore, as required by law, the State Audit Office of Hungary audits the lawfulness of the financial management of political parties receiving budget support in every two years.

- **Financial regularity audit on the lawfulness of the 2016–2017 financial management of party foundations receiving budget supports**
Based on Paragraph (3) of Section 1, and Paragraph (3) of Section 5, and Paragraph (7) of Section 33 of the SAO Act, and Paragraph (2) and (4) of Section 4 of Act XLVII of 2003 on Foundations Carrying Out Scientific, Awareness-raising, Research and Educational Activities Supporting the Operation of Political Parties, the SAO conducted its audits for the lawfulness of the financial management of party foundations receiving budget support in 2016–2017 at the Foundation for a Civic Hungary and at the Barankovics István Foundation. The State Audit Office of Hungary has published the reports. Parties may establish a foundation for the development of political culture and for the purpose of carrying out scientific, awareness-raising, research and educational activities. It is a basic factor from the point of the clarity of Hungarian political life, the reduction of corruption risks, and the use of public funds and public property available for party foundations that the financial management of the foundations of political parties be lawful, accountable and transparent. Accordingly, as required by law, the State Audit Office of Hungary audits the lawfulness of the financial management of party foundations receiving budget support in every two years.
- **Final accounts of the 2018 budget of Hungary – Compliance audit on the implementation of the 2018 central budget of Hungary**
The principle of balanced, transparent and sustainable budget management is secured by the Fundamental Law, and it stipulates that economic organisations managing public funds must be accountable to the public. Therefore, the bill on the central budget and its implementation should include public expenditures and revenues in the same structure, in a transparent manner, and in reasonable detail. The audit of the implementation of the budget and the final accounts is the task of the State Audit Office of Hungary to be performed on the basis of law.
By auditing the final accounts bill, the State Audit Office of Hungary fulfils constitutional task thereof. It checks the reliability of the revenue and expenditure accounts of the organisations belonging to the central subsystem of public finances and the regularity of their annual financial management. The audit of the final accounts emphasises the transparency of public finances by monitoring the implementation of the revenue and expenditure appropriations of the central budget, including centrally and chapter-managed appropriations, the social security funds, the separated state funds and the budgetary institutions of the central government sub-system, thus reporting on the reliability of the revenue and expenditure data of the central subsystem as a whole. The implementation of the statutory audit obligation and the SAO's evaluation of the final accounts support the National Assembly in the substantiated adoption of the budget implementation bill, contributing to the requirements of accountability and transparency, responsible management of public funds by the audited entities, and at the same time providing a wide range of information to the general public.
Based on the audit of the SAO, the budgetary institutional system ensured the regularity of the management of public funds in 2018. The bill on the implementation of the 2018 central budget is substantiated, the data contained therein is reliable. The execution of the central budget for 2018 was in accordance with the legislative provisions, and the deficit and the public debt evolved in line with the legal requirements. The completed total revenues and total expenditures of the central subsystem amounted to HUF 19,922.5 billion and HUF 21,374.1 billion, respectively, and the actual deficit was HUF 1,451.6 billion in 2018.

- **Opinion on the 2020 central budget – Opinion on the 2020 central budget bill of Hungary**

In connection with the opinion on the 2020 central budget, the State Audit Office of Hungary analysed the 2020 budget appropriation bill, the procedures applied for designing the public debt ratio and, prior to the parliamentary final vote on the 2020 budget appropriation bill, the effectiveness of the public debt rule and the 2018 economic and budgetary processes. The SAO pointed out in its opinion submitted to the National Assembly that the 2020 budget appropriation bill contributes to the sustainable ‘whitening’ of the Hungarian economy and to predictable and stable economic processes, and it ensures an adequate framework for implementing social policy objectives.

- **Review of the local government decree on revenues due to and shared by the Budapest Municipality and the Budapest district local governments in 2018**

The objective of the audit of the resource allocation was to audit the allocation of the revenues shared by the Budapest Metropolitan Local Government and the Budapest district local governments pursuant to the Revenue Allocation Decree of 2018, and to verify the regularity of the establishment and accounting of expenditures related to local taxation. The State Audit Office of Hungary found the 2018 resource allocation to be substantiated and correct; therefore, no correction was required during the 2019 resource allocation.

- **Audit of political campaign funds**

Pursuant to Paragraph (1) of Section 8 / B and Paragraph (2a) of Section 8 / C and Paragraph (2) of Section 9 of Act LXXXVII of 2013 on the Transparency of Campaign Expenses for the Election of Members of Parliament, and Paragraph (1) of Section 10 of Act XXXIII of 1989 on the Operation and Financial Management of Political Parties the State Audit Office of Hungary performed the audit of the accounting of the funds spent on the 2018 parliamentary election campaign in the Hungarian State Treasury, individual candidates and nominating organisations. The State Audit Office of Hungary has published the reports.

It is of prime public interest that the organisations using campaign funds comply with the applicable statutory provisions in order to ensure the transparency and accountability of the use of public funds, and the fairness of the elections. The Act on Accounting, the Act on Political Campaigns and the Act on Political Parties set out unambiguous and mandatory provisions for nominating organisations with regard to the use and accounting of campaign funds. Compliance with these acts and the provisions of the Act on the State Audit Office of Hungary ensures the regularity, transparency and accountability of campaign funds. The State Audit Office of Hungary plays a key role in the enforcement of civil control over political parties and, by conducting its audits, it promotes the regularity of the financial management of political parties and thus an ultimately clean political environment.



ANNEX III:

LIST OF ABBREVIATIONS

Institutions

ÁEEK	National Health Care Services Centre
AFROSAI	African Organisation of Supreme Audit Institutions
ARABOSAI	Arab Organization of Supreme Audit Institutions
ASOSAI	Asian Organization of Supreme Audit Institutions
SAO	State Audit Office of Hungary
EMMI	Ministry of Human Capacities
EU	European Union
EUROSAI	European Organisation of Supreme Audit Institutions
INTOSAI	International Organisation of Supreme Audit Institutions
IDI	INTOSAI Development Initiative
FC	Fiscal Council
Treasury	Hungarian State Treasury
MNB	Magyar Nemzeti Bank
MNV Zrt.	Magyar Nemzeti Vagyonkezelő Zrt.
NTCA	National Tax and Customs Administration
NAIH	National Authority for Data Protection and Freedom of Information
NMHH	National Media and Infocommunication Authority
OECD	Organisation for Economic Co-operation and Development
NA	National Assembly
OLACEFS	Organización Latinoamericana y del Caribe de Entidades Fiscalizadoras Superiores (Organisation of Latin American and Caribbean Supreme Audit Institutions)
SZGYF	Directorate-General for Social Affairs and Child Protection
Audit Office	State Audit Office of Hungary

Regulators

1660/2015 (IX. 15.) Government Decision	Government Decision No. 1660/2015 (IX. 15.) on the Renewal of the Remuneration System of Senior Officers of Majority State-owned Business Associations
Act CXXIX of 2013 Public Finances Act Fundamental Law SAO Act Public Finances Act Decree	Act CXXXIX of 2013 on the Magyar Nemzeti Bank Act CXCV of 2011 on public finances The Fundamental Law of Hungary (25 April 2011) Act LXVI of 2011 on the State Audit Office of Hungary Government Decree No. 368/2011 (XII. 31.) on the Implementation of the Act on Public Finances Government Decree No. 370/2011 (XII.31.) on the Internal Control System and Internal Audit of Budgetary Institutions
Internal Control System Decree	Regulation No. 2016/679 of the European Parliament and the Council on the protection of natural persons with regard to the processing of personal data and on the free movement of such data, and repealing Directive 95/46/EC (General Data Protection Regulation)
GDP	Act CXCVI of 2011 on National Assets
National Assets Act Act on Political Parties	Act XXXIII of 1989 on the Operation and Financial Management of Political Parties
Stability Act Act on Accounting	Act CXCIV of 2011 on the Economic Stability of Hungary Act C of 2000 on Accounting and Government Decision No. 1660/2015
Act on Electoral Procedure	Act XXXVI of 2013 on Electoral Procedure

Other

k	thousand
GDP	Gross Domestic Product
BA	business association
ISSAI	International Standards of Supreme Audit Institutions
IT	Information Technology
R&D	Research and development
SME	small and medium-sized businesses
HUF bn	HUF Billion
NCCS-2	National Climate Change Strategy (second)
SDG	Sustainable Development Goals
GHG	Greenhouse gases
V4+2	the member states of the Visegrád Group: Hungary, Poland, the Czech Republic and Slovakia (V4) completed with Croatia and Slovenia

ANNEX IV: REPORTS AND ANALYSES PREPARED BY THE SAO IN 2019

- 19001** Report – Follow-up audits – Audit of the establishment and operation of the internal control system of local governments – Local Government of the City of Győr with county rights
- 19002** Report – Follow-up audits – Audit of the establishment and operation of the internal control system of local governments – Local Government of the City of Fót
- 19003** Follow-up audit of local government debt settlement procedures – Local Government of the Municipality of Gacsály
- 19004** Follow-up audit of local government debt settlement procedures – Local Government of the Municipality of Biri
- 19005** Report – Audit of the financial management of institutions maintained by national minority local governments – Bulgarian Bilingual Kindergarten
- 19006** Report – Follow-up audit of the establishment and operation of the internal control system of local governments – Local Government of the Town of Arló
- 19007** Report – Audit of the establishment and operation of the internal control system of local governments – Local Government of the Municipality of Tinnye
- 19008** Report – Audit of the financial management of foundations – Joseph Károlyi Foundation
- 19009** Report – Review of the local government decree on revenues due to and shared by the Budapest Metropolitan Local Government and the Budapest district local governments in 2018
- 19010** Report – Audit of the establishment and operation of the internal control system of local governments – Local Government of the Municipality of Sárszadány
- 19011** Report – Audit of state-owned business associations – ÉMI Építésügyi Minőségellenőrző Innovációs Nonprofit Kft.
- 19012** Report – Local government audits – Integrity and internal control system – Local Government of the City of Onga
- 19013** Report – Follow-up audits – Transformation of the network of research institutes of the Hungarian Academy of Sciences, audit of the financial management and performance of tasks of certain key research institutes
- 19014** Report – Follow-up audit of the performance of public tasks by business associations majority-owned by local governments – Miskolci Operafesztivál Kulturális Szolgáltató Nonprofit Kft.
- 19015** Report – Audit of campaign expenditures – Audit on the settlement of monetary funds spent on the parliamentary election campaign in 2018, to be conducted at the nominating organisations – Momentum Movement
- 19016** Report – Audit of political campaign expenditures – Audit of the accounting of monetary funds spent on the parliamentary election campaign of 2018, to be conducted at the nominating organisations – Dialog for Hungary Party
- 19017** Report – Financial monitoring-based audit of local governments – Sustainability of the financial management of city local governments
- 19018** Report – Follow-up audits – Audit of the performance of tasks and property management of the national park management – Hortobágy National Park Directorate
- 19019** Report – Follow-up audits – Audit of the performance of tasks and property management of the national park management – Duna-Ipoly National Park Directorate
- 19020** Report – Follow-up audits – Audit of the performance of tasks and property management of the national park management – Körös-Maros National Park Directorate
- 19021** Report – Follow-up audits – Audit of the establishment and operation of the internal control system of local governments – Local Government of the City of Alsónémedi
- 19022** Report – Local government audits – Integrity and internal control system – Local Government of the City of Sükösd
- 19023** Report – Follow-up audits – Audit of the establishment and operation of the internal control system of local governments – Local Government of the City of Abony
- 19024** Report – Follow-up audits – Audit of the establishment and operation of the internal control system of local governments – Local Government of the City of Törökszentmiklós
- 19025** Report – Follow-up audits – Audit of the establishment and operation of the internal control system of local governments – Local Government of the City of Százhalombatta
- 19026** Report – Follow-up audits – Audit of the performance of public tasks by business associations majority-owned by local governments – Trafó Kortárs Művészetek Háza Nonprofit Kft.
- 19027** Report – Follow-up audits – Audit of the performance of public tasks by business associations majority-owned by local governments – Kolibri Gyermek és Ifjúsági Színház Közhasznú Nonprofit Kft.
- 19028** Report – Financial regularity audit on the lawfulness of the 2016–2017 financial management of political parties receiving budget supports – Fidesz–Hungarian Civic Alliance
- 19029** Report – Financial regularity audit on the lawfulness of the 2016–2017 financial management of political parties receiving budget supports – Christian Democratic People’s Party
- 19030** Report – Audit on the accounting of monetary funds spent on the parliamentary election campaign of 2018, to be conducted at the nominating organisations
- 19031** Report – Follow-up audits – Audit of the performance of public tasks by business associations majority-owned by local governments – Weöres Sándor Színház Nonprofit Kft.
- 19032** Report – Audit of the audit activity of the Hungarian State Treasury
- 19033** Report – Audit on the accounting of monetary funds spent on the parliamentary election campaign in 2018, at the Hungarian State Treasury and individual candidates
- 19034** Report – Local government audits – Integrity and internal control system – Local Government of the Municipality of Sárszentmihály
- 19035** Report – Follow-up audits – Audit of local government debt settlement procedures – Local Government of the City of Esztergom
- 19036** Report – Follow-up audits – Audit of the performance of tasks and property management of the national park management – Órségi National Park Directorate
- 19037** Report – Follow-up audits – Regularity audit of the financial and property management of local governments – Local Government of the City of Rétság
- 19038** Report – Local government audits – Integrity and internal control system – Local Government of the City of Kozármisleny
- 19039** Report – Audit of the establishment and operation of the internal control system of local governments, Audit of the debt settlement procedure – Local Government of the Municipality of Olasz
- 19040** Report – Audit of non-state human service providers – Suli Harmónia – 2007 Children’s Help Foundation
- 19041** Report – Financial and property management audit of specific institutions of the central subsystem – Historical Archives of the Hungarian State Security Services
- 19042** Report – Audit of the financial management of foundations – Batthyány Lajos Foundation
- 19043** Report – Follow-up audits – Regularity audit of the financial and property management of local governments – Local Government of the City of Makó
- 19044** Report – Local government audits – Integrity and internal control system – Local Government of the City of Bordány
- 19045** Report – Follow-up audits – Audit of the establishment and operation of the internal control system of local governments – Local Government of the City of Kazincbarcika
- 19046** Report – Audit of state-owned business associations – Városliget Ingatlanfejlesztő Zártkörűen Működő Részvénytársaság
- 19047** Report – Follow-up audits – Audit of the performance of public tasks by business associations majority-owned by local governments – Vígszínház Nonprofit Korlátolt Felelősségű Társaság
- 19048** Report – Local Governments Audit – Auditing the establishment and operation of the internal control system of local governments, as well as the preparation level of investments – Local Government of the Metropol City of Budapest
- 19049** Report – Checking the regularity of the operation of the Magyar Nemzeti Bank
- 19050** Report – Follow-up audits – Audit of the establishment and operation of the internal control system of local governments – Local Government of the City of Dunakeszi
- 19051** Report – Follow-up audits – Audit of the establishment and operation of the internal control system of local governments – Local Government of the Municipality of Dunaszeg
- 19052** Report – Follow-up audits – Audit of the establishment and operation of the internal control system of local governments – Local Government of the Municipality of Kaposzserdahely

- 19053** Report – Follow-up audits – Audit of the performance of public tasks by business associations majority-owned by local governments – József Attila Színház Nonprofit Kft.
- 19054** Report – Integrity and internal control audit of central budgetary institutions, Property management – University of Theatre and Film Arts
- 19055** Report – Audit of the use of central budget subsidies received by proprietors of public educational and social institutions and service providers providing human services and operating outside public finances – Trans-Tisza Reformed Church District
- 19056** Report – Audit of nationally owned business associations – Audit of state-owned economic organisations – STKH Sopron és Térsége Környezetvédelmi és Hulladékgazdálkodási Nonprofit Korlátolt Felelősségű Társaság
- 19057** Report – Local government audits – Integrity and internal control system – Local Government of the Municipality of Gellénháza
- 19058** Report – Follow-up audits – Audit of the establishment and operation of the internal control system of local governments – Local Government of the City of Vecsés
- 19059** Report – Local government audits – Integrity and internal control system, Audit of investment activities – Local Government of the City of Nagyvenyim
- 19060** Report – Local government audits – Integrity and internal control system – Local Government of the Municipality of Ópályi
- 19061** Report – Follow-up audits – Financial and property management audit of specific institutions of the central subsystem – Toldi Miklós Vocational High School, Vocational Secondary School and Boarding School of Food Industry
- 19062** Report – Follow-up audits – Financial and property management audit of specific institutions of the central subsystem – Szentannai Sámuel High School and Boarding School
- 19063** Report – Audit of nationally owned business associations – Fény Utcai Piac Beruházó, Szervező és Üzemeltető Korlátolt Felelősségű Társaság
- 19065** Report – Audit of nationally owned business associations – Zöld Bicske Nonprofit Korlátolt Felelősségű Társaság
- 19066** Report – Local government audits – Integrity and internal control system – Local Government of the City of Szászvár
- 19067** Report – Local government audits – Integrity and internal control system – Local Government of the Municipality of Pusztahencse
- 19068** Report – Audit of the financial management of foundations Antall József Politics and Social Sciences Knowledge Centre Foundation
- 19069** Report – Audit of the use of central budget subsidies received by proprietors of public educational and social institutions and service providers providing human services and operating outside public finances – Methodist Church of Hungary
- 19070** Report – Local government audits – Integrity and internal control system – Local Government of the City of Csepreg
- 19071** Report – Follow-up audits – Audit of the establishment and operation of the internal control system of local governments – Local Government of Újpest, 4th District of Budapest Capital
- 19072** Report – Local government audits – Integrity and internal control system – Audit of individual investment activities – Local government of the Municipality of Vértessomló
- 19073** Report – Integrity and Internal control audit of central budgetary institutions, Property management – University of Fine Arts Moholy-Nagy
- 19074** Report – Audit of National Media and Infocommunication Authority
- 19075** Report – Audit of local governments, Integrity and internal control system – Local government of the City of Ecsér
- 19076** Report – Audit of state-owned business associations – AK Nyomda Korlátolt Felelősségű Társaság
- 19077** Report – Follow-up audits – Audit of the establishment and operation of the internal control system of local governments – Local Government of the Municipality of Györszemere
- 19078** Report – Integrity and internal control system of local governments – Audit of the establishment and operation of the internal control system of local governments, Audit of the debt settlement procedure – Local Government of the Municipality of Salomvár
- 19079** Report – Audit of local governments, Integrity and internal control system – Local government of the City of Zsombó
- 19080** Report – Financial and property management audit of specific institutions of the central subsystem – Fejér County Cultural Centre
- 19081** Report – Audit of local governments, Integrity and internal control system – Local government of the City of Gyöng
- 19082** Report – Audit of nationally owned business associations – UV Újpesti Vagyonkezelő Zártkörűen Működő Részvénytársaság
- 19083** Report – Local government audits – Integrity and internal control system, Audit of investment activities – Local Government of the Municipality of Karácsond
- 19084** Report – Integrity and internal control system of local governments – Audit of the establishment and operation of the internal control system of local governments, Audit of the debt settlement procedure – Local Government of the Municipality of Versend
- 19085** Report – Local government audits – Integrity and internal control system, Audit of investment activities – Local Government of the City of Kiszombor
- 19086** Report – Audit of the use of central budget subsidies received by proprietors of public educational and social institutions and service providers providing human services and operating outside public finances – ‘Sunshine-Home’ Highly Public Benefit Purpose Foundation
- 19087** Report – Audit of nationally owned business associations – Nagytarcsai Köszolgáltató Nonprofit Korlátolt Felelősségű Társaság
- 19088** Report – Audit of the use of central budget subsidies received by proprietors of public educational and social institutions and service providers providing human services and operating outside public finances – Via Vita Veritas Foundation
- 19089** Report – Audit of the use of central budget subsidies received by proprietors of public educational and social institutions and service providers providing human services and operating outside public finances – ‘HEALTH DOCK’ Public Benefit Purpose Foundation
- 19090** Report – Audit of the use of central budget subsidies received by proprietors of public educational and social institutions and service providers providing human services and operating outside public finances – Budapest Jewish Community
- 19091** Report – Integrity and internal control system, Audit of investment activities – Local Government of the City of Jászszentlászló
- 19092** Report – Audit of the use of central budget subsidies received by proprietors of public educational and social institutions and service providers providing human services and operating outside public finances – Fókusz Oktató Közhasznú Nonprofit Kft.
- 19093** Report – Audit of the establishment and operation of the internal control system of local governments, Audit of the debt settlement procedure – Local Government of the Municipality of Vizsoly
- 19094** Report – Audit of the use of central budget subsidies received by proprietors of public educational and social institutions and service providers providing human services and operating outside public finances – Ecumenical Public Educational Association of Fót
- 19095** Report – Audit of nationally owned business associations – Budavári Kapu Behajtási Rendszert Üzemeltető Kft.
- 19096** Report – Audit of nationally owned business associations – Belváros-Lipótváros Vagyonkezelő „zártkörűen működő” Részvénytársaság
- 19097** Report – Opinion on the 2020 central budget appropriation bill of Hungary
- 19098** Report – Local government audits – Integrity and internal control system, Audit of investment activities – Local Government of the Municipality of Baj
- 19099** Report – Audit of the use of central budget subsidies received by proprietors of public educational and social institutions and service providers providing human services and operating outside public finances – Hungarian Pentecostal Church
- 19100** Report – Local government audits – Integrity and internal control system, Audit of investment activities – Local Government of the Municipality of Fehérvárcsurgó
- 19101** Audit of nationally owned business associations – Szentés Városlátó Nonprofit Korlátolt Felelősségű Társaság
- 19102** Report – Audit of non-state human service providers – Audit of the use of central budget subsidies received by proprietors of public educational and social institutions and service providers providing human services and operating outside public finances – TÁMASZ Foundation of Pécs
- 19103** Report – Audit of nationally owned business associations – Kőbányai Szivárvány Szociális Gondoskodást Nyújtó Közhasznú Nonprofit Korlátolt Felelősségű Társaság
- 19104** Report – Audit of state-owned business associations – Pillér Pénzügyi és Számítástechnikai Korlátolt Felelősségű Társaság
- 19105** Report – Audit of the use of central budget subsidies received by proprietors of public educational and social institutions and service providers providing human services and operating outside public finances – ‘The Railways for Children’ Foundation
- 19106** Report – Audit of nationally owned business associations – BUDA-HOLD Vállalkozás Szervezési és Szolgáltató Kft.

- 19107** Report – Audit of nationally owned business associations – Józsefvárosi Gazdálkodási Központ Zrt.
- 19108** Report – Audit of nationally owned business associations – EVIN Erzsébetvárosi Ingatlanguzdasági Nonprofit Zrt.
- 19109** Report – Audit of non-state human service providers – Audit of the use of central budget subsidies received by proprietors of public educational and social institutions and service providers providing human services and operating outside public finances – Gorsium Music School Foundation
- 19110** Report – Audit of the ‘emergency’ medical response system
- 19111** Report – Audit of state-owned business associations – NETI Informatikai Tanácsadó Korlátolt Felelősségű Társaság
- 19112** Report – Audit of non-state human service providers – Audit of the use of central budget subsidies received by proprietors of public educational and social institutions and service providers providing human services and operating outside public finances – Work-Shop Lyceum Foundation
- 19113** Report – Audit of state-owned business associations – Dunakeszi Járműjavító Korlátolt Felelősségű Társaság
- 19114** Report – Audit of non-state human service providers – Audit of the use of central budget subsidies received by proprietors of public educational and social institutions and service providers providing human services and operating outside public finances – Török Sándor Waldorf Pedagogical Foundation
- 19115** Report – Audit of central budgetary institutions – Damjanich János High School and Vocational School of Agriculture
- 19116** Report – Audit of non-state human service providers – Monitoring the use of subsidies received from the central budget by proprietors of public educational and social institutions and service providers providing human services and operating outside public finances – Institutional Proprietor and Keeper Public Foundation of Audi Hungaria School
- 19117** Report – Audit of central budgetary institutions – Jávorszky Ödön Hospital
- 19118** Report – Audit of nationally owned business associations – BONYCOM Bonyhádi Közüemi Nonprofit Korlátolt Felelősségű Társaság
- 19119** Report – Audit of nationally owned business associations – „SZÁKOM” Százhalombattai Kommunális Szolgáltató Nonprofit Kft.
- 19120** Report – Audit of nationally owned business associations – Soroksár Sport Club Kft.
- 19121** Report – Audit of nationally owned business associations – Váci Hulladékgazdálkodási Nonprofit Kft.
- 19122** Report – Audit of state-owned business associations – Új Világ Nonprofit Szolgáltató Korlátolt Felelősségű Társaság
- 19123** Report – Integrity and internal control system, Audit of individual investment activities – Local Government of the Municipality of Egyházaskozár
- 19124** Report – Audit of central budgetary institutions – Gottsegen György National Institute of Cardiology
- 19125** Report – Audit of nationally owned business associations – KÖVÁL Közüemi és Vállalkozási Nonprofit Zártkörűen működő Részvénytársaság
- 19126** Report – Audit of state-owned business associations – Könyvtárellátó Közhasznú Nonprofit Korlátolt Felelősségű Társaság
- 19127** Report – Audit of state-owned business associations – Szegedi SZÉFO Fonalfeldolgozó zártkörűen működő Részvénytársaság
- 19129** Report – Local government audits – Integrity and internal control system, Audit of investment activities – Local Government of the Municipality of Kunszállás
- 19130** Report – Local government audits – Integrity and internal control system, Audit of investment activities – Local Government of the Municipality of Abda
- 19131** Report – Audit of nationally owned business associations – KÖZSZOLG Pápai Köztisztasági és Szolgáltató Nonprofit Kft.
- 19132** Report – Audit of the property management related to state-owned cultural property – Audit of the performance of legal practitioners in relation to tasks related to state property cultural assets
- 19133** Report – Audit of the system of catering for children
- 19134** Report – Audit of state-owned business associations – MVM NET Távközlési Szolgáltató Zártkörűen Működő Részvénytársaság
- 19135** Report – Local government audits – Integrity and internal control system – Local Government of the City of Batorbágy
- 19136** Report – Audit of nationally owned business associations – XIII. Kerületi Községszolgáltató Zrt.
- 19137** Report – Integrity and internal control system, Audit of investment activities – Local Government of the Municipality of Petőháza
- 19138** Report – Local government audits – Integrity and internal control system – Local Government of the City of Hajdúnánás
- 19139** Report – Local government audits – Integrity and internal control system – Local Government of the City of Üllő
- 19140** Report – Local government audits – Integrity and internal control system – Local Government of the City of Gádos
- 19141** Report – Local government audits – Integrity and internal control system, Audit of investment activities – Local Government of the Municipality of Szigetújfalu
- 19142** Report – Integrity and internal control system, Audit of investment activities – Local Government of the Municipality of Nyárlőrinc
- 19143** Report – Local government audits – Integrity and internal control system – Local Government of the City of Halásztelek
- 19144** Report – Local government audits – Integrity and internal control system – Local Government of the City of Tiszaszőlős
- 19145** Report – Integrity and internal control system of local governments – Audit of the establishment and operation of the internal control system of local governments, Audit of the debt settlement procedure – Local Government of the Municipality of Erdőbénye
- 19146** Report – Audit of nationally owned business associations – FEV IX. Ferencvárosi Vagyonkezelő és Városfejlesztő Zártkörűen Működő Részvénytársaság
- 19147** Report – Audit of the use of central budget subsidies received by proprietors of public educational and social institutions and service providers providing human services and operating outside public finances – Aranykereszt Ápoló Otthon Közhasznú Nonprofit Kft.
- 19148** Report – Local government audits – Integrity and internal control system, Audit of investment activities – Local Government of the Municipality of Zánka
- 19149** Report – Audit of nationally owned business associations – Városinfo 18 Nonprofit Korlátolt Felelősségű Társaság ‘under voluntary liquidation’
- 19150** Report – Audit of nationally owned business associations – Óbudai Vagyonkezelő Nonprofit Zártkörűen Működő Részvénytársaság
- 19151** Report – Audit of central budgetary institutions – Directorate General for Social Affairs and Child Protection
- 19152** Report – Audit of state-owned business associations – MVM GTER Gázturbinás Erőmű Zártkörűen Működő Részvénytársaság
- 19153** Report – Financial regularity audit on the lawfulness of the 2016–2017 financial management of party foundations receiving budget supports – Association for Civil Hungary Foundation
- 19154** Report – Local government audits – Integrity and internal control system – Local Government of the City of Dunaharaszti
- 19155** Report – Audit of the use of central budget subsidies received by proprietors of social institutions and service providers providing human services and operating outside public finances – Social and Rehabilitation Foundation
- 19156** Report – Follow-up audits – Financial and property management audit of specific institutions of the central subsystem – Magyar Gyula Vocational High School and Vocational Secondary School of Horticulture
- 19157** Report – Audit of MVM Magyar Villamos Művek Zártkörűen Működő Részvénytársaság
- 19158** Report – Regularity audit on the activities related to the exercise of proprietary rights over state property
- 19159** Report – Audit of local governments, Integrity and internal control system, Audit of investment activities – Local Government of the City of Nagymágocs
- 19160** Report – Audit of public bodies – Hungarian Chamber of Plant Protection Engineering and Plant Medicine
- 19161** Report – Local government audits – Integrity and internal control system, Audit of investment activities – Local Government of the Municipality of Nyőgér
- 19162** Report – Audit of the use of central budget subsidies received by proprietors of public educational and social institutions and service providers providing human services and operating outside public finances – Equal Opportunities Foundation
- 19163** Report – Audit of the use of central budget subsidies received by proprietors of public educational and social institutions and service providers providing human services and operating outside public finances – SOS Children’s Villages Foundation Hungary
- 19164** Report – Audit of nationally owned business associations – Zuglói Sport- és Rendezvény szervező Nonprofit Korlátolt Felelősségű Társaság

- 19165** Report – Audit of nationally owned business associations – Terézvárosi Vagyonkezelő Nonprofit Zártkörűen Működő Részvénytársaság
- 19166** Report – Audit of the use of central budget subsidies received by proprietors of public educational and social institutions and service providers providing human services and operating outside public finances – Elderly In Need Of Care Foundation
- 19167** Report – Audit of the use of central budget subsidies received by proprietors of public educational and social institutions and service providers providing human services and operating outside public finances – Estikék Retirement Home Foundation
- 19168** Report – Audit of state-owned business associations – MVM Észak-Budai Kogenerációs Fűtőerőmű Korlátolt Felelősségű Társaság
- 19169** Report – Local government audits – Integrity and internal control system – Local Government of the City of Barcs
- 19170** Report – Audit of the use of central budget subsidies received by proprietors of public educational and social institutions and service providers providing human services and operating outside public finances – Holy Cross Foundation
- 19171** Report – Audit of the use of central budget subsidies received by proprietors of public educational and social institutions and service providers providing human services and operating outside public finances – Blue Forget-me-not Foundation
- 19172** Report – Audit of the use of central budget subsidies received by proprietors of public educational and social institutions and service providers providing human services and operating outside public finances – Hotel Béda Idősek Lakóotthona Közhasznú Nonprofit Korlátolt Felelősségű Társaság
- 19173** Report – Audit of the use of central budget subsidies received by proprietors of public educational and social institutions and service providers providing human services and operating outside public finances – Mutual Assistance Association
- 19174** Report – Audit of central budgetary institutions – Kinizsi Pál Vocational High School and Vocational Secondary School of Food Industry
- 19175** Report – Audit of state-owned business associations – MVM Hungarowind Szélerőmű Üzemeltető Korlátolt Felelősségű Társaság
- 19176** Report – Audit of nationally owned business associations – Jászberényi Vagyonkezelő és Városüzemeltető Nonprofit Zártkörűen Működő Részvénytársaság
- 19177** Report – Audit of the use of central budget subsidies received by proprietors of public educational and social institutions and service providers providing human services and operating outside public finances – Shelter Foundation
- 19178** Report – Audit of central budgetary institutions – Csongrád County Dr. István Bugyi Hospital
- 19179** Report – Audit of central budgetary institutions – Szent Borbála Hospital
- 19180** Report – Audit of central budgetary institutions – Hetényi Géza Hospital and Clinic of Jász-Nagykun-Szolnok County
- 19181** Report – Audit of public bodies – Chamber of Hungarian Health Care Professionals
- 19182** Report – Integrity and internal control system, Audit of investment activities – Local Government of the Municipality of Tótvázsony
- 19183** Report – Audit of the use of central budget subsidies received by proprietors of public educational and social institutions and service providers providing human services and operating outside public finances – SZOCEG Szociális és Egészségügyi Szolgáltató Nonprofit Kft.
- 19184** Report – Audit of the use of central budget subsidies received by proprietors of public educational and social institutions and service providers providing human services and operating outside public finances – Nyíregyháza-City Reformed Church Parish
- 19185** Report – Audit of nationally owned business associations – Hegyvidéki Sportszarnok és Sportközpont Korlátolt Felelősségű Társaság
- 19186** Report – Audit of nationally owned business associations – MÓRAÉP Városüzemeltetési, Szolgáltató és Kereskedelmi Nonprofit Közhasznú Korlátolt Felelősségű Társaság
- 19187** Report – Audit of state-owned business associations – Egészségügyi Szolgáltató Zártkörűen Működő Részvénytársaság
- 19188** Report – Local government audits – Integrity and internal control system – Local Government of the City of Tokaj
- 19189** Report – Integrity and internal control system, Audit of investment activities – Local Government of the Municipality of Szigetbecse
- 19190** Report – Audit of the use of central budget subsidies received by proprietors of public educational and social institutions and service providers providing human services and operating outside public finances – Hungarian Interchurch Aid
- 19191** Report – Local government audits – Integrity and internal control system – Local Government of the City of Mindszent
- 19192** Report – Audit of nationally owned business associations – Szabad Tér Színház Nonprofit Korlátolt Felelősségű Társaság
- 19194** Report – Audit of the use of central budget subsidies received by proprietors of public educational and social institutions and service providers providing human services and operating outside public finances – „Harmónia K” Szociális Szolgáltató Közhasznú Nonprofit Kft.
- 19195** Report – Audit of the use of central budget subsidies received by proprietors of public educational and social institutions and service providers providing human services and operating outside public finances – Napvirág Idősek Otthona Nonprofit Szolgáltató Közhasznú Korlátolt Felelősségű Társaság
- 19196** Report – Audit of central budgetary institutions – South Pest Central Hospital – National Institute of Hematology and Infectious Diseases
- 19197** Report – Final accounts of the 2018 budget of Hungary – Compliance audit on the implementation of the 2018 central budget of Hungary
- 19198** Report – Audit of the use of central budget subsidies received by proprietors of public educational and social institutions and service providers providing human services and operating outside public finances – Prizma Educational and Cultural Foundation
- 19199** Report – Audit of central budgetary institutions – Museum of Applied Arts
- 19200** Report – Audit of the use of central budget subsidies received by proprietors of public educational and social institutions and service providers providing human services and operating outside public finances – Hand Held Out For Those In Need Public Benefit Foundation
- 19201** Report – Audit of central budgetary institutions – AM Central Hungarian Agricultural Training Centre, Bercsényi Miklós Vocational High School, Vocational Secondary School and Boarding School of Food Industry
- 19202** Report – Regularity audit on the activities related to the exercise of proprietary rights over state property
- 19203** Report – Audit of central budgetary institutions – Vay Ádám High School, Vocational School and Boarding School of Agriculture
- 19204** Report – Audit of central budgetary institutions – Bedő Albert Vocational High School, Vocational Secondary School and Boarding School of Forestry
- 19205** Report – Audit of central budgetary institutions – Fáy András Vocational High School, Vocational Secondary School and Boarding School of Agriculture
- 19206** Report – Audit of central budgetary institutions – Lippai János Vocational High School and Vocational Secondary School of Agriculture
- 19207** Report – Audit of central budgetary institutions – Food industry and Geodetic Vocational High School, Vocational Secondary School and Boarding School of Szombathely
- 19208** Report – Audit of nationally owned business associations – Balmazújvárosi VESZ Városi Egészségügyi Szolgálat Nonprofit Korlátolt Felelősségű Társaság
- 19209** Report – Local government audits – Integrity and internal control system – Local Government of the City of Pécsvárad
- 19210** Report – Local government audits – Integrity and internal control system – Local Government of the City of Ajak
- 19211** Report – Audit of nationally owned business associations – Miskolci Csodalom Bábszínház Nonprofit Kft.
- 19212** Report – Audit of non-state human service providers – Monitoring the use of subsidies received from the central budget by proprietors of public educational and social institutions and service providers providing human services and operating outside public finances – SORS-2002 Egészségügyi Szolgáltató Nonprofit Kft.
- 19213** Report – Audit of non-state human service providers – Monitoring the use of subsidies received from the central budget by proprietors of public educational and social institutions and service providers providing human services and operating outside public finances – ReFoMix Nonprofit Közhasznú Kft.
- 19214** Report – Audit of nationally owned business associations – Sashalmi Piac Ingatlanfejlesztő, Beruházó és Üzemeltető Kft.
- 19215** Report – Audit of nationally owned business associations – Csepeli Városgazda Közhasznú Nonprofit Zrt.
- 19216** Report – Audit of nationally owned business associations – BKSZ Békési Kommunális és Szolgáltató Korlátolt Felelősségű Társaság
- 19217** Report – Audit of nationally owned business associations – Miskolci Nemzeti Színház Nonprofit Kft.
- 19218** Report – Audit of nationally owned business associations – „Magyarországi Szerb Színház” Nonprofit Közhasznú Korlátolt Felelősségű Társaság

19219 Report – Audit of nationally owned business associations – JÁSZFÉNYSZARU IPARI CENTRUM Korlátolt Felelősségű Társaság

19220 Report – Audit of nationally owned business associations – PALOTA-HOLDING Ingatlan- és Vagyongazdálkodó Zártkörűen Működő Részvénytársaság

19221 Report – Audit of central budgetary institutions – State Health Care Centre

19222 Report – Audit of non-state human service providers – Monitoring the use of subsidies received from the central budget by proprietors of public educational and social institutions and service providers providing human services and operating outside public finances – Social Mission Association

19223 Report – Audit of non-state human service providers – Monitoring the use of subsidies received from the central budget by proprietors of public educational and social institutions and service providers providing human services and operating outside public finances – Halfway Foundation

19224 Report – Audit of non-state human service providers – Monitoring the use of subsidies received from the central budget by proprietors of public educational and social institutions and service providers providing human services and operating outside public finances – IRMÁK Közhasznú Nonprofit Kft.

19225 Report – Audit of central budgetary institutions – Török János Vocational High School and Vocational Secondary School of Agriculture and Health

19226 Report – Audit of central budgetary institutions – St. Lazarus County Hospital

19227 Report – Local government audits – Integrity and internal control system, Audit of investment activities – Local Government of the Municipality of Lövő

19228 Report – Local government audits – Integrity and internal control system, Audit of investment activities – Local Government of the City of Dombegyház

19229 Report – Local government audits – Integrity and internal control system, Audit of investment activities – Local Government of the Municipality of Szakmár

19231 Report – Audit of central budgetary institutions – Batthyány Lajos Vocational High School, Vocational Secondary School and Boarding School of Agriculture and Food Industry

19232 Report – Audit of central budgetary institutions – Jávorka Sándor Vocational High School, Vocational Secondary School and Boarding School of Agriculture and Food Industry

19233 Report – Audit of central budgetary institutions – Pettkó-Szandtner Tibor Equestrian Secondary School and Boarding School

19234 Report – Audit of central budgetary institutions – Pesti Barnabás Vocational High School and Vocational Secondary School of Food Industry

19235 Report – Audit of central budgetary institutions – Herman Ottó Vocational High School, Vocational Secondary School and Boarding School of Environmental Protection and Agriculture

19236 Report – Audit of central budgetary institutions – Gregus Máté Vocational High School and Vocational Secondary School of Agriculture

19237 Report – Audit of central budgetary institutions – Bárczay János Vocational High School, Vocational Secondary School and Boarding School of Agriculture

19238 Report – Audit of central budgetary institutions – AM Transdanubian Agricultural Training Centre, Csapó Dániel Vocational High School, Vocational Secondary School and Boarding School of Agriculture

19239 Report – Audit of central budgetary institutions – Vocational High School, Vocational Secondary School and Boarding School of Agriculture of Kenderes

19240 Report – Audit of central budgetary institutions – Kiss Ferenc Vocational High School of Forestry

19241 Report – Audit of central budgetary institutions – Dr. Entz Ferenc Vocational High School, Vocational Secondary School and Boarding School of Agriculture

19242 Report – Audit of state-owned business associations – VPE Vasúti Pályakapacitás-elosztó Korlátolt Felelősségű Társaság

19243 Report – Audit of central budgetary institutions – Fodor József Vocational High School and Vocational Secondary School of Food Industry

19244 Report – Financial regularity audit on the lawfulness of the 2016–2017 financial management of party foundations receiving budget supports – Barankovics István Foundation

19245 Report – Audit of central budgetary institutions – Galamb József Vocational High School and Vocational Secondary School of Agriculture

19246 Report – Financial monitoring based audit of local governments – Sustainability of the financial management of 220 local governments with independent mayoral offices

19247 Report – Audit of Local Governments based on financial monitoring – Audit on the sustainability of the financial management of municipality local governments of common municipal office seats consisting of five or more local governments, a total of 144 local governments

19248 Report – Audit of central budgetary institutions – Petőfi Museum of Literature

19249 Report – Audit of central budgetary institutions – Bükk National Park Directorate

19250 Report – Audit of central budgetary institutions – Körös-Maros National Park Directorate

19251 Report – Audit of central budgetary institutions – Hortobágy National Park Directorate

19252 Report – Audit of central budgetary institutions – Kiskunság National Park Directorate

19253 Report – Audit of central budgetary institutions – Fertő-Hanság National Park Directorate

19254 Report – Audit of central budgetary institutions – Őrség National Park Directorate

19255 Report – Audit of central budgetary institutions – Duna-Dráva National Park Directorate

19256 Report – Audit of central budgetary institutions – Balaton Uplands National Park Directorate

19257 Report – Audit of central budgetary institutions – Duna-Ipoly National Park Directorate

19258 Report – Audit of central budgetary institutions – Aggtelek National Park Directorate

Analyses

T/445 Analysis of the opportunities for increasing the activity rate of social groups with low economic activity

T/446 Analysis of the audit experiences on political party foundations receiving budget support

T/447 Analysis – Potential methods for a more flexible planning and execution of budgetary appropriations

T/448 Study – Study on the integrity situation of publicly owned business associations in 2018

T/449 Analysis – Analysis of the audit experience of local government-owned health care business associations

T/450 Analysis – Analysis summarising the audit experience of hospitals

T/451 Analysis – Sustainability of debt reduction

T/452 Analysis on the audit experience gained from the institutions maintained by the national minority local governments

T/453 Analysis – Structural change of the budget with special regard to the cyclical nature of EU funds

T/454 Analysis – The relationship between gross external debt and public debt financing

T/455 The analysis of the integrity of the public sector based on new methodology – 2018

T/456 Analysis for the Fiscal Council on the budgetary processes of the 2nd half of 2018

T/457 Considerations for the Fiscal Council to form an opinion on the draft bill of Hungary's central budget for 2020

T/458 Analysis – Adaptation to climate change in the context of sustainability and competitiveness

T/459 Analysis – Can the development of state-owned business associations be used as a counter-cyclical economic policy tool?

T/460 Analysis – Family Support System in Hungary

T/461 Analysis – Intercity community transport

T/462 Analysis of health financing

T/463 Analysis summarising the SAO's audit experiences regarding social and child protection institutions

T/464 Analysis of the audit experience of local government-owned business associations operating in the field of culture and media

T/465 Analysis of the audit experience of local government-owned business associations performing sports-related tasks

T/466 Analysis of the audit experience of local government-owned business associations performing urban and market management tasks

T/467 Analysis of the development of economic and budgetary developments in 2018 based on preliminary data

T/468 Analysis for the Fiscal Council on the budgetary processes of the 1st half of 2019

T/469 Considerations for the Fiscal Council to form an opinion on the final vote on the appropriation bill of Hungary's central budget for 2020

T/470 Analysis on the factors influencing balanced economic growth

T/471 Analysis – Investment promotions by the state and job creation measures

T/472 Analysis of the macroeconomic correlations of 2018 budgetary processes in the context of the audit of the final accounts

T/473 On the role and the importance of medium-term budgetary planning

T/474 Analysis on the audit experiences of party foundations

T/475 The effects of the VAT cut on the process of sustainable whitening of the economy

T/476 Analysis of the state of internal audit activities

ANNEX V: AUDITOR'S REPORT



INDEPENDENT AUDITOR'S REPORT
TO

THE CHAIRMAN OF THE NATIONAL ASSEMBLY

on the

ANNUAL REVIEW OF THE FINANCIAL STATEMENT FOR THE YEAR 2019 ON THE
STATE AUDIT OFFICE OF HUNGARY BUDGETARY CHAPTER

PREPARED BY

 **ORSZÁGOS FORDÍTÓ ÉS FORDÍTÁSHITELESÍTŐ IRODA ZRT.** 
H-1062 BUDAPEST, BAJZA U. 52. OFFI Zrt.
Hungarian Office for Translation and Attestation Ltd. - OFFI Ltd. Закрывающее акционерное общество Венгерского бюро переводов и аттестации
Ungarisches Nationalbüro für Übersetzungen und Beglaubigungen geschi. AG - OFFI geschi. AG Agence Nationale de Traduction et de Legalisation Société Anonyme Fermée - OFFI S.A.

20P1086SBUD-01-01#LE_HID

Certified translation from a non-certified Hungarian photocopy
----- SZENCZI DIVIZOR -----
----- ÜZLETVITELI TANÁCSADÓ ÉS KÖNYVVIZSGÁLÓ KFT. -----
Seat: 1088 Budapest, József körút 19. III/6. -----
Business address: 4024 Debrecen, Szent Anna utca 14/A. -----
Mailing address: 4002 Debrecen Pf. 309 -----
Email: iroda@szenczidivizor.hu -----
Phone/fax: +36 52 454928, +36 52 454929, +36 52 531506 -----
Mobile: +36 30 6332309 -----
No.: 61-0547-002/2020. -----

INDEPENDENT AUDITOR'S REPORT TO THE OFFICE OF THE NATIONAL ASSEMBLY-
ON THE AUDIT OF THE ANNUAL REPORT ON THE FINANCIAL MANAGEMENT OF THE
----- STATE AUDIT OFFICE BUDGET CHAPTER IN THE YEAR 2019 -----

Opinion: -----
I have conducted the audit of the annual closing budget report of 13 March 2020 on the implementation of the State Audit Office Budget Chapter's (hereinafter "SAO") Year 2019 Budget, according to which realised revenues and expenditures amounted to HUF 11,759,553,000 and HUF 11,316,590,000, respectively; the residue as per the residue statement for 2019 totalled HUF 442,963,000; and the sum of total assets equalling total liabilities was HUF 4,210,833,000, on the basis of the provision of additional data, the balance sheet statement as at 31 December 2019 and the profit and loss statement for the fiscal year ended on the same date, where the balance sheet profit was HUF 438,743,000, all this accounting information having been determined in accordance with Act C of 2000 on Accounting (hereinafter "Accounting Act") and Government Decree 4/2013 (11 January) on Public Finance Accounting (hereinafter "Government Decree on Public Finance Accounting"), both in effect.-----

In my opinion, the State Audit Office's annual budget report for the Year 2019 presents a true and fair picture of the implementation and revenue position of the budget for the respective fiscal period, as well as of the state of assets and financial position as at 31 December 2019. ---
Added to my opinion is my conclusion that the State Audit Office's annual closing budget report for the fiscal year ended on 31 December 2019 and the accounting information presented therein have been compiled, in all material respects, in compliance with Act CXCIV of 2011 on Public Finances, the Accounting Act, the Government Decree on Public Finance Accounting, Government Decree 368/2011 (31 December) on the Implementation of the Act on Public Finances (hereinafter "Ávr.") and Act LXVI of 2011 on the State Audit Office (hereinafter "Ász tv.") in effect and, therefore, in my opinion the annual closing budget report for the Year 2019 is suitable for acceptance.-----

Basis for opinion: -----
I have conducted my audit in accordance with the Hungarian National Standards on Auditing and the

Certified translations, attestation of translations may only be prepared by the Hungarian Office for Translation and Attestation Ltd., unless otherwise provided by law. (Decree No. 24/1986 (26 June) of the Council of Ministers)

ORSZÁGOS FORDÍTÓ ÉS FORDÍTÁSHITELESÍTŐ IRODA ZRT.
OFFI Zrt.
H-1062 BUDAPEST, BAJZA U. 52.
www.offi.hu

2

effective Hungarian laws and other regulations on audits. My responsibilities under these standards are further described in the "The Auditor's responsibility for auditing and forming an opinion on the annual closing budget report" section of my report.-----

I am independent of the State Audit Office's organisation in compliance with the relevant effective Hungarian regulations and the "Rules of conduct (ethical rules) of the auditor profession and the disciplinary process" of the Chamber of Hungarian Auditors and, in respect of matters not regulated therein, the "Code of Ethics for Professional Accountants" (the IESBA Code) issued by the International Ethics Standards Board for Accountants and I have fulfilled the ethical requirements in accordance with the same standards. -----

In compliance with the effective Hungarian ethical standards pertaining to my audit of the annual closing budget report, I am independent of the State Audit Office and, in conformity with the same ethical standards, I have also fulfilled my other ethical responsibilities.-----

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion. -----

Other information: -----

Other information comprises non-accounting information related to the annual closing budget report, including the contents of the annexes attached thereto. The management of the State Audit Office (hereinafter "management") is responsible for the preparation and presentation of other information. My opinion on the accounting information contained in the annual closing budget report provided in the section of my report entitled "Opinion" does not apply to other information and I do not issue any conclusion providing any form of assurance in respect of other information. My responsibility in connection with my audit of the accounting information presented in the annual closing budget report and the annexes thereto is to review (read) other information and, in doing so, consider whether the other information contained in the annual closing budget report and the annexes thereto is inconsistent with the presented accounting information or whether based on my knowledge obtained in the audit or otherwise it appears to be materially misstated. If based on my work I draw the conclusion that the other information contains material misstatements, it is my responsibility to report this fact. I have nothing to report in this regard. -----

Responsibilities of management and the persons in charge of governance for the annual closing budget report: -----

The management is responsible for the compilation and submission of the annual closing budget report in accordance with Act CXCIV of 2011 on Public Finances; for the preparation and presentation of the accounting information contained therein in compliance with the provisions of the Ávr. and the Ász tv.; and for such internal control as the management determines is necessary to enable the preparation of an annual closing budget report that is free from material misstatement, whether due to fraud or error. -----

The persons in charge of governance are responsible for overseeing the State Audit Office's financial

20P1086SBUD-01-01#LE_HID



3

reporting process.-----

The Auditor's responsibility for auditing and forming an opinion on the annual closing budget report:-----

My objectives during the audit are to obtain reasonable assurance about whether the annual closing budget report as a whole is free from material misstatement, whether due to fraud or error, and to issue, on the basis of the above, an independent auditor's report that includes my opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with the Hungarian National Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the annual closing budget report.-----

As part of an audit in accordance with the Hungarian National Standards on Auditing, I exercise professional judgment and maintain professional scepticism throughout the audit. In addition:-----

- I have identified and assessed the risks of material misstatement in the information contained in the annual closing budget report, whether due to fraud or error; designed and performed audit procedures responsive to those risks; and obtained audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.-----

I evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management of the State Audit Office.-----

- I have obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the State Audit Office's internal control.-----
- I have examined the accounting information contained in the annual closing budget report, with special regard to the balance sheet statement, changes in financial instruments, debts, asset report and the quantified impacts of decisions with multi-year effects, as well as changes in obligations as presented by the State Audit Office in the annual closing budget report.-----
- I have made a conclusion on the appropriateness of preparation by the management of the annual closing budget report for the Year 2019 in accordance with the going concern principle and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the enforcement of the going concern principle on the State Audit Office's part, with special regard to organisational and task changes, including the impacts of future events and conditions. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may affect the enforcement of the going concern principle at the State Audit Office.-----

I communicate to the persons in charge of governance, among other matters, the planned scope and

4

timing of the audit and the significant audit findings, including material deficiencies, if any, that I have identified in the State Audit Office's internal control. I conclude in my audit that I have revealed no material deficiencies at the State Audit Office.-----

Budapest, 20 March 2020 -----

Seal -----

Illegible signature -----

Representative of the audit firm-----

Dr Jánosné Detrich, Managing Director-----

SZENCZI DIVIZOR KFT.-----

1088 Budapest, József körút 19. III/6-----

Registration No.: 000852-----

Budget Qualification No.: KM002171-----

Seal -----

Illegible signature -----

Auditor as Chamber member -----

Dr Jánosné Detrich -----

Registration No.: 002728-----

Budget Qualification No.: KM000199-----

20P10865BUD-01-01#

The Hungarian Office for Translation and Attestation Ltd. hereby officially certifies that this translation is in full conformity with the original document attached hereto.

The Hungarian Office for Translation and Attestation Ltd. assumes no responsibility for the authenticity of the source-language document or its content.

Budapest, 26 MAY 2020

Gerzsenyi Erka
For the Director General
Gerzsenyi Erka



**„A HITELESÍTÉSI ILLETÉK LERÓVA
ATTESTATION FEE PAID“**



State Audit Office of Hungary

H-1052 Budapest, Apáczai Cs. J. u. 10 • Postal address: H-1364 Budapest 4. Pf. 54
Telephone No.: +36-1-484-9100 • Facsimile: +36-1-484-9200
www.asz.hu