



SUPPORT  
INDEPENDENCE  
LEGALITY VISUALISATION  
REGULARITY  
ACCOUNTABILITY SUSTAINABILITY  
PERFORMANCE CAPACITY GROWTH  
MONITORING KNOWLEDGE SHARING  
INTEGRITY TRANSPARENCY VALUE CREATION  
DIGITALISATION EVALUATION  
RESILIENCE  
PERFORMANCE  
ANALYSIS

## SUMMARY

of the 2021 annual activities of the State Audit Office of Hungary  
and report on the functioning  
of the institution to the Hungarian National Assembly

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László Domokos  
President of SAO

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# FOREWORD BY THE PRESIDENT

I am pleased to present to you the work of the State Audit Office of Hungary (SAO Hungary) in 2021 and to share our achievements, audit and analytical results, and support and knowledge-sharing activities over the past year. In the meantime, I will also look back on the more than 10 years since the entry into force of Hungary's Fundamental Law, as the enshrinement of the principles of balanced, transparent and sustainable budget management and the principles of legality, transparency, expediency and efficiency in the management of public funds in the Fundamental Law have placed high demands on public sector organisations. The same applies to the SAO, which is also required by the Fundamental Law to monitor the application of these principles.

We all feel that we are in the midst of changes and processes which, although challenging, also offer great opportunities. While the pandemic has changed the way the SAO works, it has also strengthened the organisation. Despite the pandemic, we have made technological and methodological changes, significantly increased our audit coverage, broadened our analytical work and strengthened our support role.

In the past year, the State Audit Office of Hungary, as the supreme financial and economic audit organisation of National Assembly, fulfilling its statutory mandate, continued to perform its planned tasks, such as auditing the implementation of the central budget, the management of public finances, the use of resources from public finances and the management of national assets.

I am convinced that our findings and recommendations have made the use of public funds more transparent and effective, and have contributed to the efficient functioning of institutions and systems that perform public functions for the public good.

Technological and methodological improvements within the organisation have not only allowed us to increase our audit coverage, but also our ability to perform comprehensive evaluations every 2-3 years, even on a recurrent basis.

One might ask why this is seen as an important step forward? Firstly, because our audits provide us with a snapshot of the current situation, but from several years' perspective we also have the opportunity to look at the same factors to examine the shifts in the public finance situation of the organisations concerned, thus providing a systemic picture of their operation and management.

However, the SAO is not only able to compare coverage and time periods, it can also plan detailed, sequential audits. For example, sometimes only the most essential documents are examined first to check that the organisations are in order, which is assessed by grades. Those rated 5 are recognised for their preparedness, while those rated 1 and 2 are further reviewed according to risk factors and, if necessary, even reviewed at transaction level. It is important to underline that the SAO, in line with its mandate, does not reveal case-by-case abuses, but performs its assessments in a systemic and supportive way, contributing to transparency. This, we can say, is in the fundamental interest of all Hungarian citizens.

The aim of the State Audit Office of Hungary is to provide the public and the legislature with transparent, professional and comprehensible information on issues related to public assets. It is essential that all segments of society and government decision-making are informed by validated data and credible information, since, as the pandemic has shown, the link between reliable information and public trust is very tight. In this information overload, the SAO, as an independent body working for the public good, has a clear role to play in providing objective and professionally sound evaluations, thus ensuring credible and unbiased information that is essential for sustainability, competitiveness and social confidence. The aim of our work is therefore to promote transparency in public finances by recording the facts and providing objective, evidence-based assessments of public finances, thus contributing to good governance.

While we are proud of our results, our figures and the demonstrable, tangible benefits of our work every year, we must never lose sight of why the SAO really works.

We primarily perform tasks for the National Assembly, in the course of which we provide an assessment and feedback on the compliance with the laws it enacts, including the provisions of the Fundamental Law, and on the implementation of the laws by the organisations that use public funds and manage public assets. The main objective of the SAO is therefore to improve the public finance situation, to support the usefulness of audits both at the level of the auditees and at the systemic level, and to promote the effectiveness of a well-managed State in the light of the new context that has been identified.

At the same time, of course, we will also inform the legislator of our experience of the enforceability of the law, its implementation or non-implementation.

Since last year, we have placed particular emphasis on the other statutory task of the SAO, namely its advisory activity towards auditees. As part of this, we are engaged in a number of knowledge-sharing activities and initiatives. We prepare analyses, organise knowledge-sharing conferences, seminars, management training, publish self-tests and good practices, and develop case studies based on our audit experiences. In doing so, we pay great attention to open and transparent communication and to ensuring that organisations can benefit as much as possible from the lessons learned from our work.

I could say that we are the Big4 in public finance, with the exception that the SAO provides free support to the managers of the auditees to improve their management and delivery of public services. It can be seen, therefore, that in fact we are not only an audit organisation. The SAO adds value to National Assembly and citizens by contributing year after year to improving the quality of life and the financial stability of families.

I believe that my job is to continue to work to ensure that the majority of public spending is used for the right reasons. I am also confident that we will continue to play an important role in the future with a large number of audits that will also provide an opportunity to identify financial and asset risks in municipalities and companies. I believe that we will have two major tasks in the future. One of these will be to link the spending of budget funds to performance requirements, which has never been more necessary than in the coming months and years. The other major challenge will be the systematic development, application and implementation of performance measurement at organisational level as part of a process expected to take 8-10 years.



László Domokos  
*President*  
SAO

# THE ACT ON THE STATE AUDIT OFFICE OF HUNGARY IS MORE THAN 10 YEARS OLD

The new Act on the SAO, which came into force on 1 July 2011, enshrines the principle of independence in its personal, financial, legal and organisational aspects. The Act strengthened the audit capabilities of the SAO, gave significant weight to audits and laid the foundations for the wide use of the supreme audit institution's work. The new provisions have helped to put an end to the era of auditing without consequences. They have made it possible to transform internal processes from planning to exploitation, to rethink quality assurance, human resources management and to place greater emphasis on the supreme audit institution's advisory and knowledge-sharing activities.

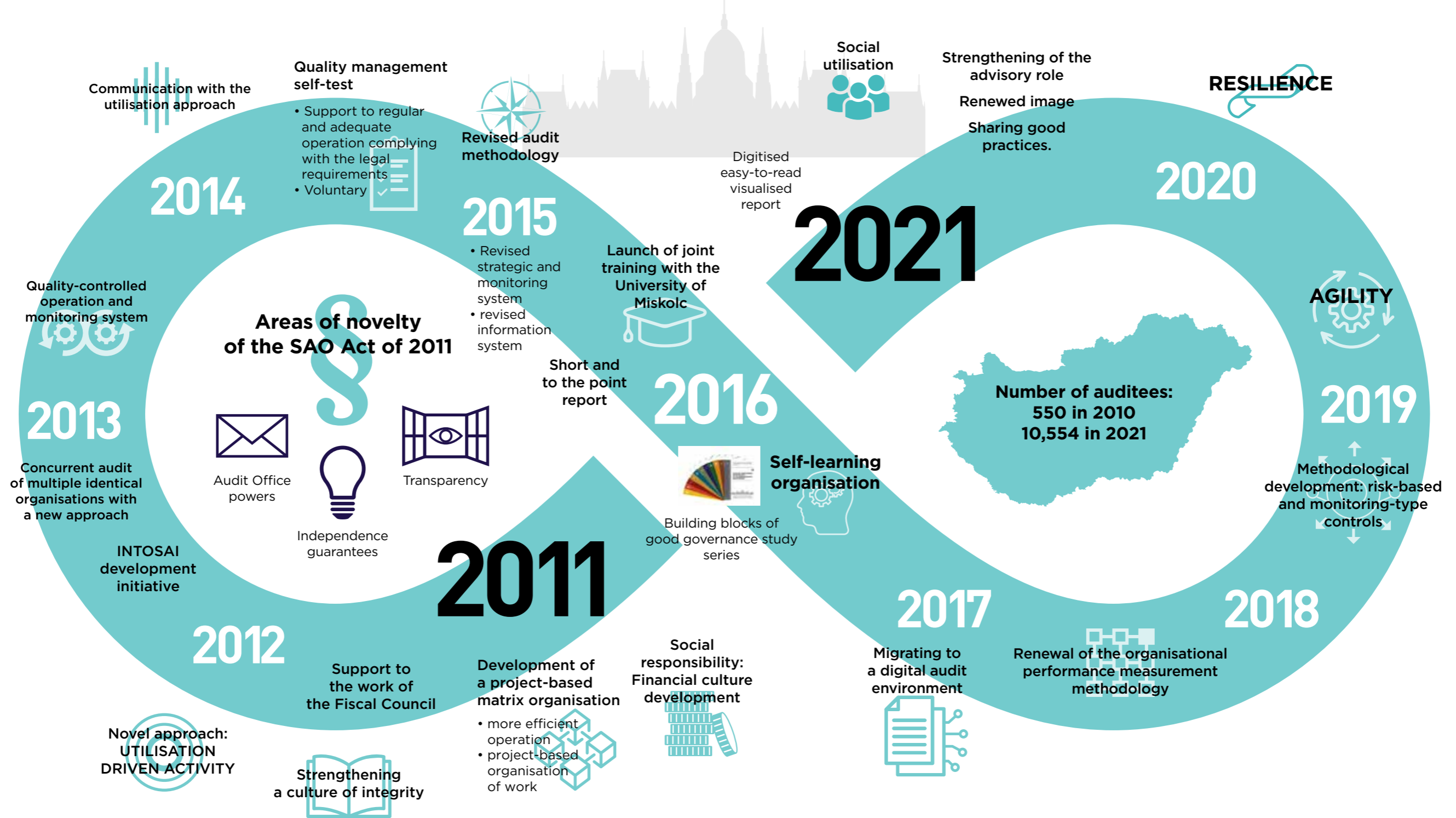
Over the past 10 years, the SAO has achieved major milestones in improving the effectiveness of its audits, both in terms of methodology and technology. Until 2011, the SAO typically performed individual audits, an approach that allowed for the assessment of a large but limited number of auditees. Thanks to the digitalisation changes of recent years, the SAO has launched and implemented technological and process-oriented developments that have enabled it to conduct audits of up to several thousand organisations at the same time. The new audit focus areas allow us to audit even more institutions, increase the audit coverage of public funds and the use of public assets, and provide society with a complete and more detailed picture of the public finance situation in Hungary through our comprehensive assessments.

In 2021, the National Assembly confirmed the advisory activity of the SAO, which reinforces the objective of supporting auditees with our wide-ranging knowledge-sharing and supportive self-tests, analyses, studies and training, and of providing thorough and comprehensible information to members of society, the correctness of which has been confirmed by the partial results so far, thus opening up the way for further advisory activities.

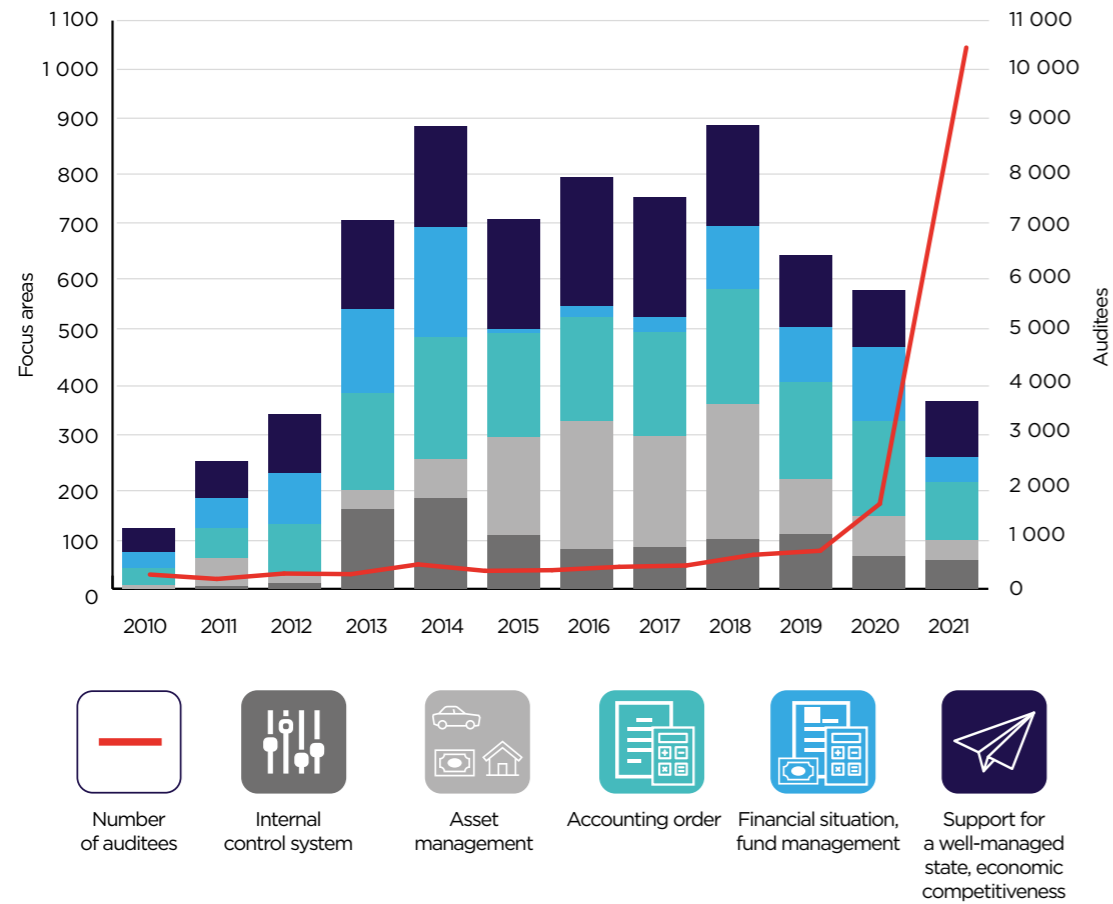
The primary objective of the SAO is to improve the public finance situation, to develop public finance and to support the maintenance of results. In this context, the use of management by letter as a tool for advisory work has gained ground in recent years. In these letters, the SAO informs the managers of the auditees of any irregularities or shortcomings detected, so that they can take measures to remedy them as soon as possible and thus ensure the proper functioning and management of the organisation they lead.

The interactivity of auditees with the indications and their evaluation by the SAO, as well as methodological and technological changes, have led to the renewal of the reports, taking into account the strategic objective of the SAO to present the results of the audits in a clear, consistent and unambiguous way at all times, through the continuous improvement of the reports. The results of the audit are presented in two pages, a concise assessment and a visualisation infographic, which supports the delivery of the audit messages more effectively and the wider usefulness of the supreme audit institution's work.

# THE FUNDAMENTAL LAW AND THE SAO ACT ARE MORE THAN 10 YEARS OLD



Changes in the number of focus areas and auditees (2010-2021)



Focus on materiality and comprehensibility

**Detailed (in-depth) audits**, audits that cover the subject in detail, in depth, on the basis of a number of audit documents



For a wide range of auditees, **risk-based audits** provide a picture of the areas selected on risk basis which involve risks for future fund management on the basis of an assessment of relevant documents according to a set of criteria.

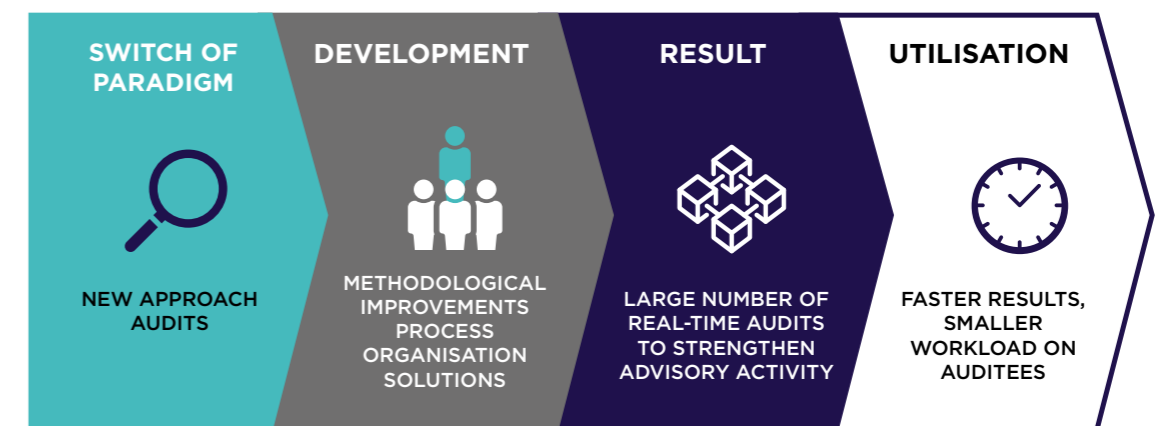


**Monitoring type audits** are real-time assessments of essential and relevant documents for all or a large part of an organisation. The recommendations for the future support the improvement of the public finance situation.



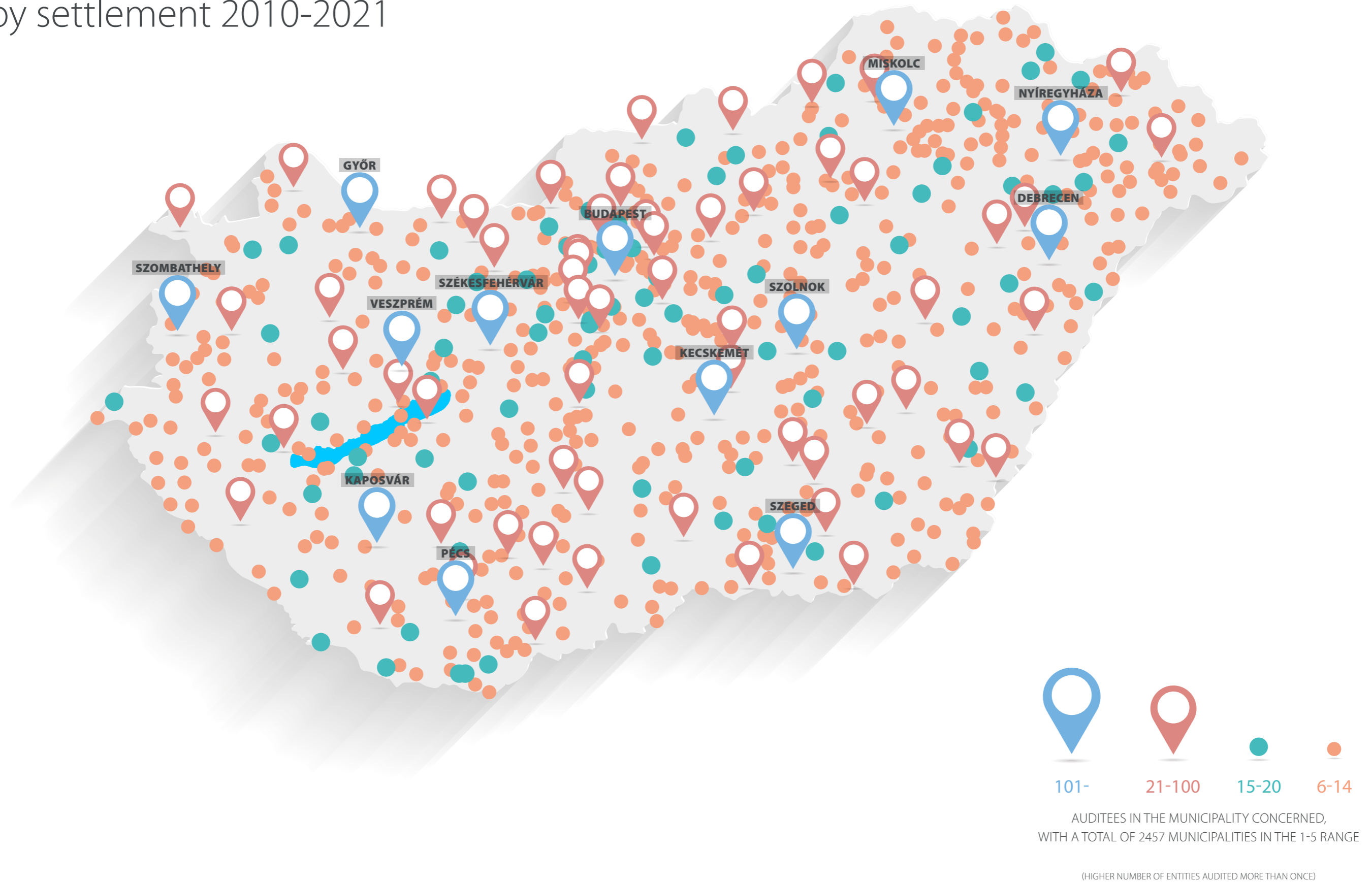
Coverage has improved significantly from 2010 to 2021. The methodological changes have allowed the SAO to publish reports covering more auditees under the same programme and with the same criteria, thus increasing the number of auditees by a factor of almost 20, despite the reduction in the number of reports.

The traditional audit activity of the SAO has shifted towards real-time audits, and its advisory role has become more and more prominent.





# Number of audits by settlement 2010-2021



# PROFESSIONAL ACTIVITIES OF THE STATE AUDIT OFFICE OF HUNGARY IN 2021



## I. AREAS OF EXPLOITATION OF THE STATE AUDIT OFFICE'S ACTIVITIES

### I. 1. Flexible response during the annual activity

Resilience, digitalisation, dynamic growth, advice and knowledge sharing - these were the keywords that characterised the SAO in 2021. The SAO is the guarantor organisation defined in the Fundamental Law, whose aim is not to find fault or to judge, but to steer in the right direction, to initiate and maintain positive change. On this basis, the SAO is an organisation that operates in accordance with the norms and values declared in the Fundamental Law and is the guardian of Hungary's economic sovereignty. The risks of integrity-based operations and the risks of circumvention and abuse may increase in a situation of emergency.

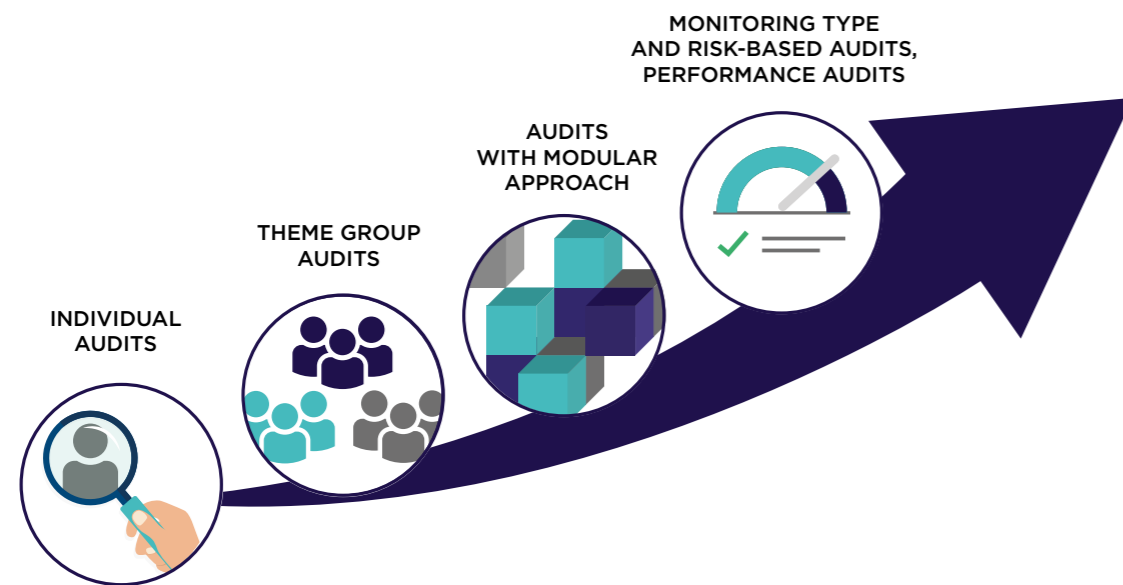
**Resilience in a general sense means flexible robustness, i.e. the ability of a system to adapt successfully to strong, recurring or even shock-like external influences.**

International organisations have identified the state of emergency caused by the COVID-19 pandemic as a high risk of corruption or malfeasance. The pandemic situation increases the potential for abuse and the risk of corruption, which is why the SAO has paid even greater attention to the regularity of the use of public funds in 2021 than before. Over the past year, it has audited the design and operation of the controls best placed to prevent abuse in thousands of budgetary bodies.

Technological and digital developments at the SAO have made it possible to run concurrently up to thousands of audits, which has increased efficiency while maintaining quality work and guaranteeing error-free operation thanks to a high level of quality assurance. The aim of the SAO's digital developments is to ensure that the given task or activity is performed in the shortest possible time and in the fastest possible way, with sufficient resources, without errors, accurately and, if possible, in an automated manner. This has also taken a considerable administrative burden off the shoulders of the auditees.

The SAO's technological and methodological developments, in particular the emergence of monitoring-type audits, have led it to publish reports on 1,534 organisations in 2020 and to close audits on 10,554 organisations in 2021.

## Technological and methodological improvements of the SAO



In 2021, the SAO had a greater impact on the operation and management of municipalities than ever before, as it conducted integrity audits of all municipalities and offices of the municipal subsystem in Hungary (3,197 municipalities and 1,284 municipal offices). Continuing its activities, it also performed real-time audits of 3,932 municipal institutions.

Through the monitoring type audit, the SAO assessed the level of integrity of the municipalities and their institutions, taking into account the present progress of the auditees. It pointed to areas where accountable managers can make progress on their own. It did not oblige auditees to prepare an action plan, but based on their commitment, it sought to promote positive public finance changes as soon as possible, through advice, thus supporting the functioning of a well-governed state. In this case, the aim of the SAO was not to judge, but to promote development. In its awareness-raising notifications the SAO highlighted the areas in which the auditees can progress, and, with a few exceptions, found openness and a complete willingness to cooperate. Mayors, notaries and heads of institutions took action to remedy the shortcomings already during the audit. It is clearly visible that the auditees benefit from the advisory tools of the SAO and require their use, as our experience shows that they count on the SAO not only as an auditor, but also as a partner supporting their legal operation.

Already in the audit process, the SAO supported the launching of positive changes as soon as possible, encouraging the leaders of the auditees to take and plan measures aimed at improving and developing the public finance situation, supporting the strengthening and restoration of the lawful status. Even during the extremely difficult, economically and socially challenging period of the pandemic, the SAO supported and recognised those organisations that were generally on the right track and operating properly, and provided guidance to those that 'lost their way' and, although their operations and management did not sufficiently comply with the law, the guidance enabled them to commit themselves to an appropriate action programme.

The SAO continued to perform its statutory tasks in the face of the fundamentally changed circumstances caused by the COVID-19 pandemic, and placed great emphasis on its knowledge-sharing and advisory activities. This was confirmed by National Assembly in its decision adopted on 15 June 2021, in which it stated that, in order to promote the operation of a well-governed state, it supports the strengthening of the advisory role of the SAO, in addition to its audit and analytical tasks, in order to improve the legality of public finances, the effectiveness of public service delivery and to strengthen public confidence.

The SAO's advisory activity aims to transfer knowledge, share 'good practices' and develop the application of public finance and management skills among public finance system organisations. This not only helps but also facilitates the work of the auditees. Building on the experiences of its audits, the SAO has also launched a series of online training courses for notaries, heads of municipal institutions and economic managers, as well as for public bodies and central subsystem managers.

Through its audits, the SAO seeks to effectively promote positive, forward-looking attitudes, the proper operation and management of the public sector in accordance with the law, and the spread of an attitude of integrity throughout the public sector. The aim of the SAO's work is therefore to ensure that the success and value of development is clearly visible to all, that municipalities, central subsystem institutions, nationally owned companies, public bodies and other organisations operate properly and efficiently, and that the population receives the highest possible level of services.

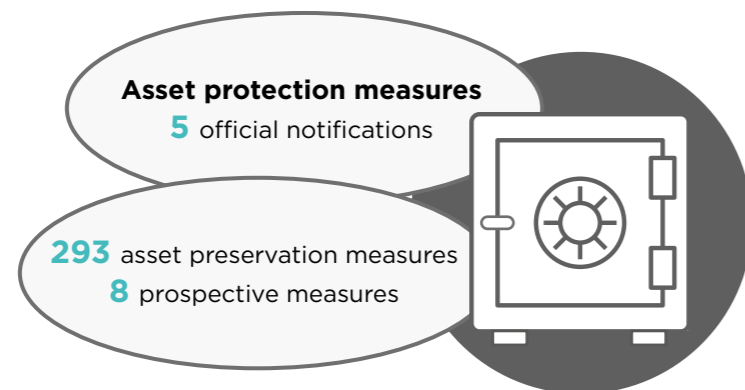
The priority activities of municipalities, central budgetary bodies and nationally owned companies during the pandemic included the preparation and implementation of major investments, which indirectly stimulated economic growth at macroeconomic level. By auditing the preparatory phase of investments, the SAO wanted to contribute to making the implementation as sound and as target-oriented as possible.

By increasing the number of performance audits, the SAO aims to promote quality spending, which is supported by analysis. In addition, analyses play an important role in the organisation's activities, since they can contribute to the initiation of legislative changes or advisory activities, in addition to providing a basis for audits.

## I.2. Coverage analysis



The SAO has general powers to audit public funds and the responsible management of state



and local government assets. The value of public funds or assets subject to valuation can be determined and measured. Besides the volume of public funds and public assets, the audit

coverage of the main groups of organisations is an important indicator that can be assessed as an indirect indicator of the usefulness of the SAO's audits and the effectiveness of the audits. In line with its strategic objective, the SAO is increasing its efforts to improve audit coverage.

In 2021, the SAO assessed a total of 10,554 auditees. Based on this, in 2021 the SAO contributed to the improvement of the public finance situation in more than 10,500 auditees, thus increasing the effectiveness of the SAO's activities.

### I.2.1. The amount of public funds, public assets audited

The audits performed by the SAO in 2021 were also reviewed in terms of whether they were performed at auditees belonging to the central subsystem, the municipal subsystem or outside the public sector, and what were the main audit topics, including the nature and amount of public funds and assets audited in relation to the topics.

As regards the central subsystem, the main areas audited by the SAO in 2021 were the following.

Audits performed at the frequency required by law:

- Audit of ownership of state assets (balance sheet total: HUF 11,447.3 billion)
- Opinion on the 2022 budget (planned expenditure: HUF 28,505.2 billion)
- Audit of the 2020 final accounts (total expenditure: HUF 28,332.1 billion)

Other audits required by law:

- Audit of the National Bank of Hungary (balance sheet total: HUF 12,347.9 billion)
- Risk-based and modular audit of central budgetary bodies (total expenditure: HUF 870.5 billion)
- Monitoring audit of central budgetary bodies (balance sheet total: HUF 184.3 billion)
- Audit of the Resolution Fund (balance sheet total: HUF 55.8 billion)

The SAO's audits of the municipal subsystem in 2021 covered the following main topics.

Audits performed at the frequency required by law:

- Audit of resource sharing in the Metropolitan Municipality (total revenue: HUF 323.7 billion)
- Audit of municipal elections (budget support: HUF 8.1 billion)

Other audits required by law:

- Audit of major investments (budget support: HUF 6.3 billion)
- Audit of municipal public libraries (total expenditure: HUF 7.0 billion)
- Financial monitoring audit of municipalities (total expenditure: HUF 1,919.3 billion)
- Integrity monitoring audit of municipalities (total expenditure: HUF 3,169.1 billion)

- Integrity monitoring audit of municipal institutions (total expenditure: HUF 978.9 billion)
- Integrity monitoring audit of institutions managed by associations (total expenditure: HUF 98.9 billion)

The audits of the SAO are required by law to include organisations outside the public sector. Within this scope, the main areas audited by the SAO in 2021 were the following.

Audits performed at the frequency required by law:

- Audit of parties, party foundations (budget support: HUF 8.1 billion)
- Audit of campaign funds (budget support: HUF 0.01 billion)

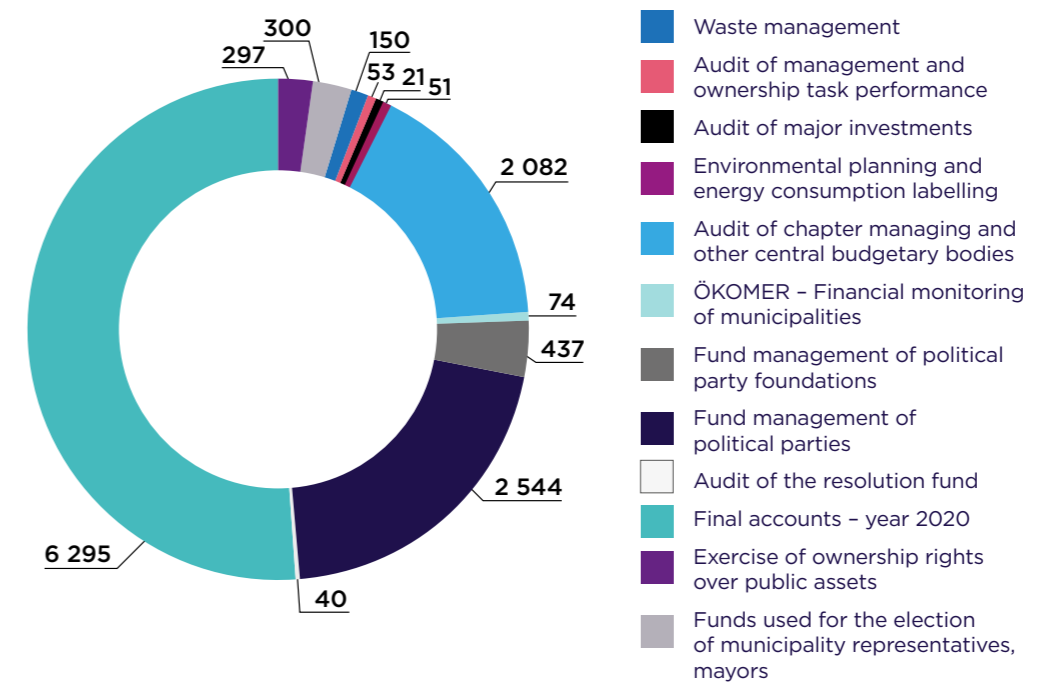
Other audits required by law:

- Audit of waste management (total revenue: HUF 163.4 billion)
- Monitoring audit of public bodies (balance sheet total: HUF 15.5 billion)
- Audit of nationally owned companies (balance sheet total: HUF 26,983.4 billion)
- Audit of non-state-owned human service providers, sports federations (budget support: HUF 67.9 billion)

In the past year the SAO has continued to use statistical sampling in its audits, which has enabled the SAO to obtain relevant findings for the total population audited. For the 2021 audits, simple random, stratified random and monetary unit sampling procedures were used for individual and modular audits. In order to ensure relevance, in some cases the sample was taken from the relevant population.

In 2021, 804 audit sites were sampled. In these organisations, the SAO's staff audited a total of 12,344 sample items worth HUF 4,485.8 billion.

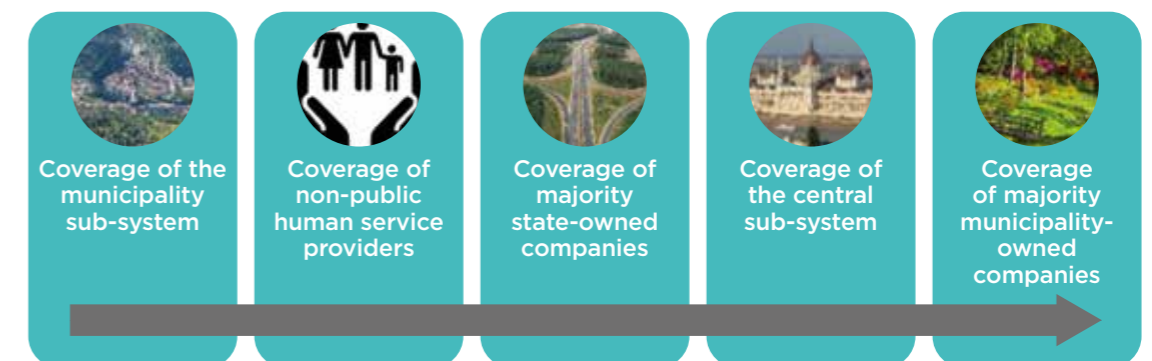
Number of sample items checked in 2021 (number) per audit



### I.2.2. Assessment of audit coverage by groups of auditees

In 2021, the SAO's audits covered central and municipal subsystem organisations, majority state owned and municipality owned companies, other organisations receiving budget support (foundations, associations, churches, non-profit companies, political parties, party foundations) and public bodies.

Audit coverage for audits closed in 2021 and ongoing at the end of the year

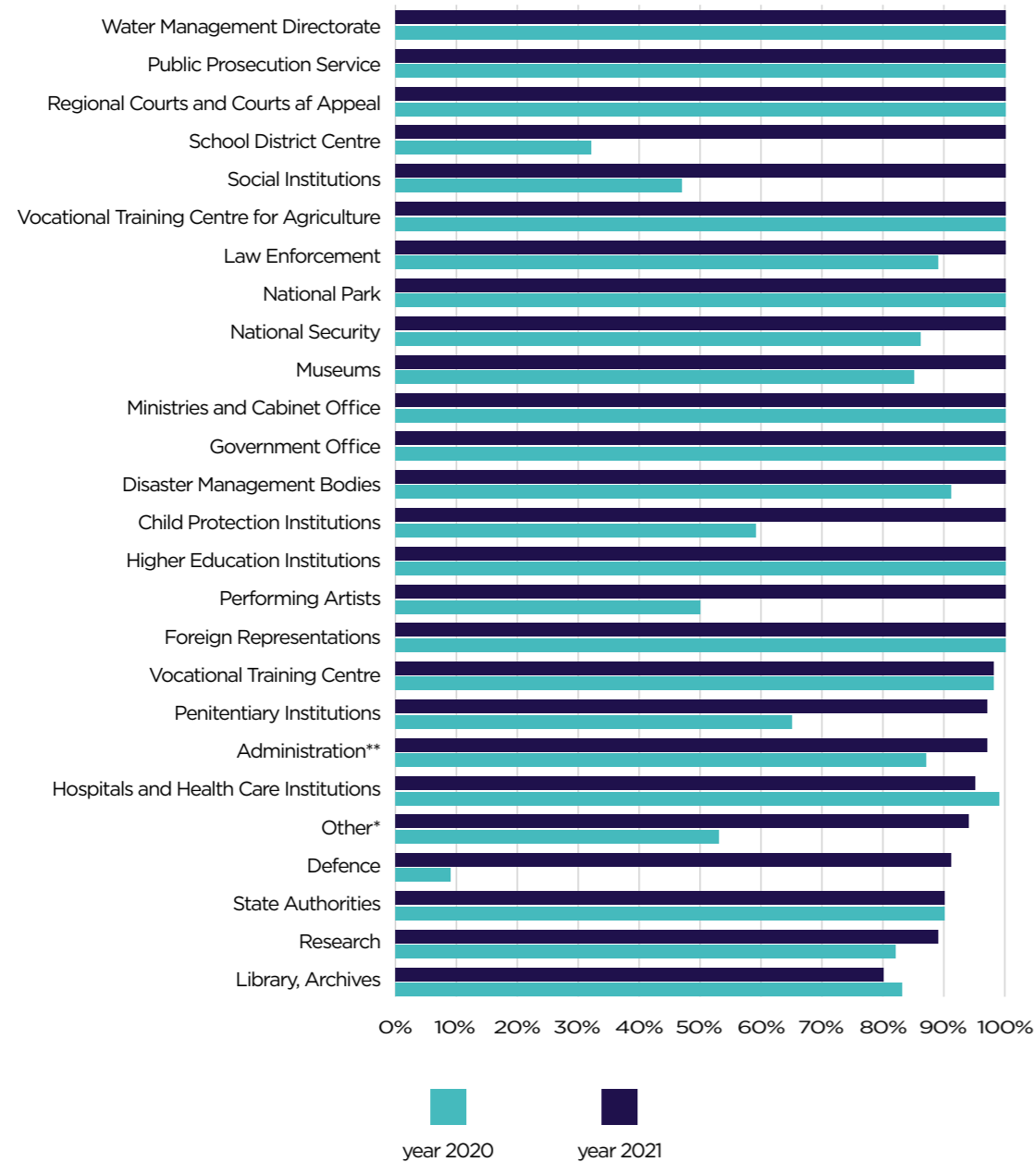


Auditees perform a wide range of activities in addition to the general public administration typical of central and municipal authorities. The SAO's audits covered, for example, public bodies in the fields of education, child protection and social care, healthcare, defence, law

enforcement, the judiciary, fire protection, research and development, water management, culture, performing arts, etc., proving that no public funds were left unaudited.

The audit coverage of the organisations of the **central subsystem** at the end of 2021, and its variation by groups of organisations compared to 2020, is shown in the figure below:

*Change in coverage of the central subsystem based on audits closed by the end of 2020 and 2021 (%)*



\*: The other segment includes e.g. Bábolna National Stud Farm, Human Resources Support Management, Eötvös Loránd Research Network Secretariat, KIFÜ (Governmental Information-Technology Development Agency), CSO, MTA Holiday Centre, National Office of Communications, National Concession Office, National Research, Development and Innovation Office.

\*\*.: The administration segment includes e.g. DGAEF, HCA, Klebelsberg Centre, GCO (Government Control Office), HST, Hungarian Energy & Utilities Regulatory Agency, Hungarian Academy of Arts, Secretariat of the Hungarian Academy of Sciences, National Tax and Customs Administration, National Health Insurance Fund Management, National Food Chain Safety Office, National Land Centre, National Media and Infocommunications Authority, National Heritage Institute, National Institute of Vocational and Adult Education, Education Authority, Hungarian Atomic Energy Authority, National Judicial Office, National Meteorological Service, Hungarian Intellectual Property Office, Directorate-General for Social Affairs and Child Protection

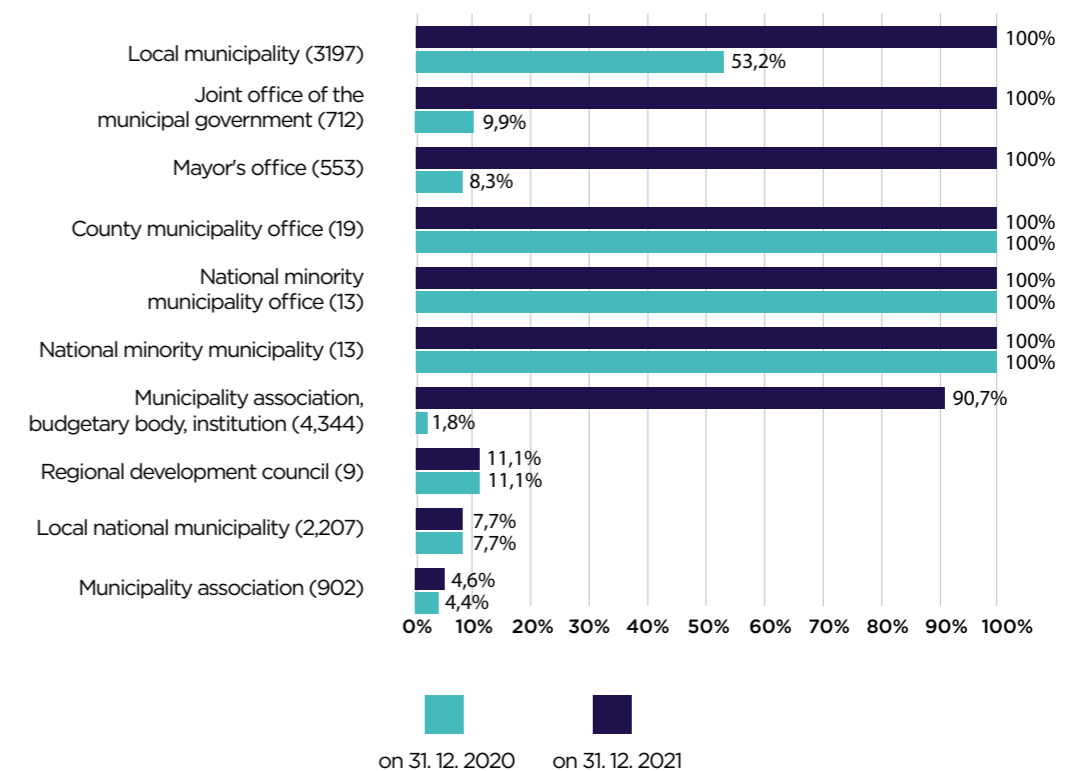
In some groups of organisations, organisations ceased to exist during the audits and new ones were established, which did not allow 100% audit coverage to be achieved.

With the audits closed in 2021, the SAO reached 97.1% of central subsystem organisations, i.e. it audited the organisations at least once in the last 11 years. The number of closed audits increased by 24.3% compared to the end of 2020. With the audits closed in 2021, the coverage of 8 groups of organisations (school districts, social services, police, national security, museums, disaster management, child protection, performing arts) became complete in 2021.

As can be seen from the above figure, more than 50% of the groups of organisations established under the central subsystem have been fully audited. For the library and healthcare groups of organisations, there is a minimal decrease in coverage by 2021 compared to the previous year due to the closure of organisations and the establishment of new ones. For some other groups of organisations, coverage increased compared to the previous year. The audit coverage of defence organisations was 8.7% in 2020 and is now 91.5%. For prison institutions, the coverage of 64.7% in 2020 improved to 97.1% by the end of 2021, based on closed audits. The coverage of the administration segment increased from 87.1% in the previous year to 96.7%. The coverage of the other group of organisations reached 93.8% by the end of 2021, which showed an increase of 40.9 percentage points compared to 2020, due to the audits closed in 2021.

In the **municipal subsystem**, there was significant improvement compared to the coverage figures at the end of 2020 in terms of audits closed by the end of 2021, as shown in the figure below:

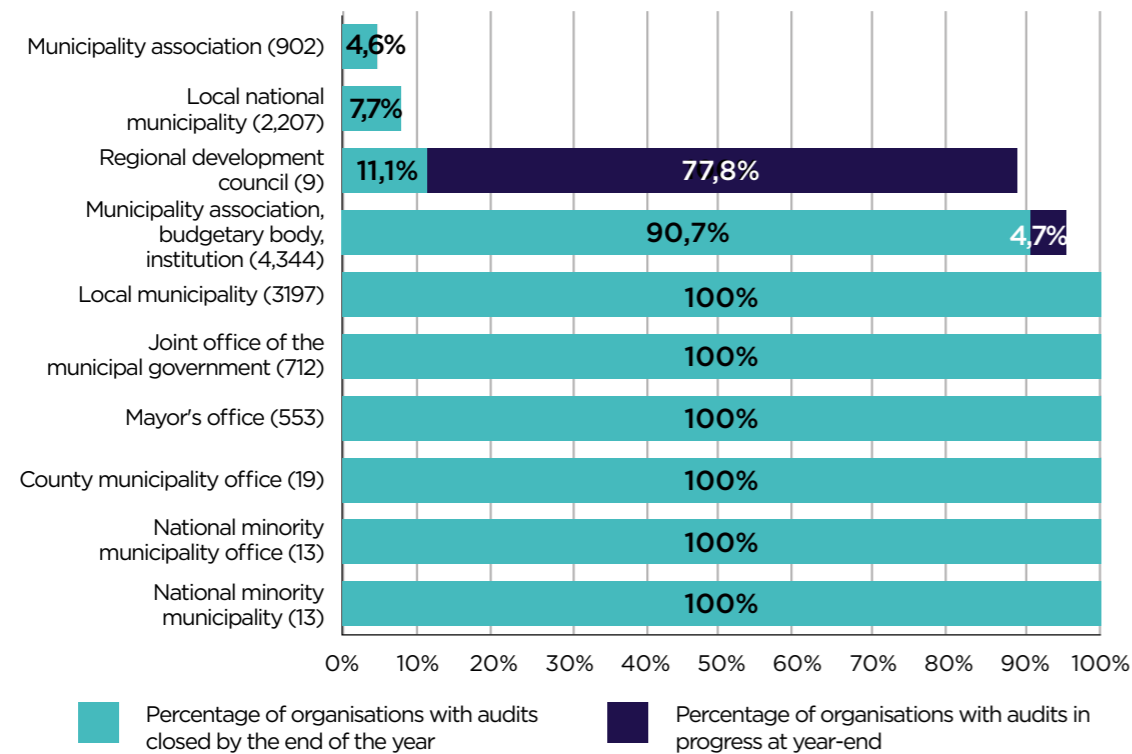
*Coverage based on completed audits at the end of 2020 and 2021 for the municipality subsystem (%)*



The improvement in coverage shown in the figure above is mainly based on the integrity monitoring audits of municipalities and the budgetary bodies of municipalities and associations, which were closed in 2021.

Looking back over the last 11 years, the coverage of the organisations in the subsystem of municipalities operating at the end of the year, based on the audits closed from 2010 to the end of 2021 and still ongoing at the end of the year, was 74.1% as at 31 December 2021, as shown in the figure below, broken down by groups of organisations:

*Coverage of the institutions of the local government sub-system based on audits closed or in progress from 2010 to 31.12.2021 (%)*

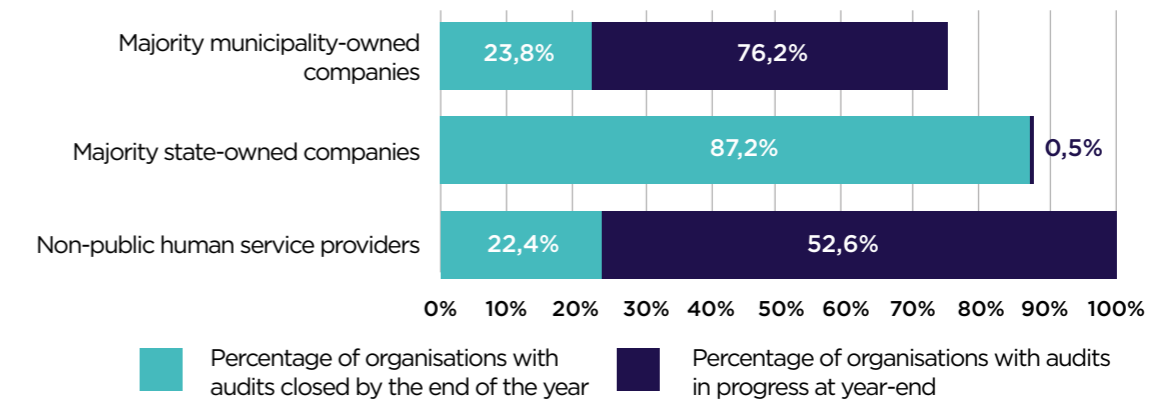


In the municipal subsystem, the SAO performed a complete audit of the national minority self-governments and their offices, and the local and county municipalities and their offices between 2010 and 2021. With the monitoring and risk-based audits of municipal associations, regional development councils and fiscal institutions maintained by municipalities and associations, which are ongoing in 2021 and planned for 2022, coverage will also increase significantly in these organisational segments. The audit coverage of budgetary bodies has not yet reached 100% due to the impact of municipal and national minority self-government institutions not yet audited and the budgetary bodies established in 2021.

Based on the closed audits of **majority nationally owned companies and non-state-owned human service providers** at the end of 2021, a significant improvement in coverage in 2021 was identified for majority state owned companies, as the coverage of this audited organisational area increased from 38.5% at the end of 2020 to 87.2% at the end of 2021. Looking back over the past 11 years, the evolution of coverage is shown

in the figure below, based on the audits of majority nationally owned companies and non-state-owned human service providers completed between 2010 and 2021 and still ongoing on 31 December 2021:

*Coverage of majority nationally-owned companies and non-state human service providers based on checks completed or started from 2010 to 31 December 2021*



The coverage of majority state owned companies with closed and ongoing audits as at 31 December 2021 reached 87.7%. For majority municipality owned companies, coverage reached 100% by the end of 2021, taking into account ongoing audits, and reached 75% for non-state-owned human service providers. The significant improvement in the coverage of municipal companies and non-state-owned human service providers was achieved through the monitoring audits launched in the second half of the year.

With the increasing number of audits in recent years, not only has the amount of public funds and public assets covered by audits increased, but the trust of society in the organisations using public funds and public assets has also been strengthened, as citizens know that organisations are subject to continuous audits and evaluations. The mission of the SAO is to promote transparency and sound public finances and to contribute to the promotion of good governance through value-creating audits. By increasing the audit coverage, it aims to have an impact on the performance of organisations using public funds and to improve the sustainable public finance situation.

### I.3. The objective of the State Audit Office of Hungary is not to find errors, but to improve public finances and strengthen accountable management.

*Utilisation areas of the Audit Office*



The focus of the SAO's mission, objectives and digital, technological and methodological developments is always on improving public finances, public service delivery and public confidence. Through its auditing, analytical and advisory activities, the SAO aims to support the managers of organisations, to make the use of public funds more transparent and effective, and to promote the efficient operation of institutions and systems providing public services for the public good.

Relevance is based on the credible gathering and peer review of information that is of significant importance to society as a whole or to a substantial part of it. Although all audits based on the use of public funds are socially justified, in reality not all audits carry the same degree of social importance and relevance. Social relevance, while respecting the principle of materiality, conveys additional information compared to justification, which is directed towards the expected societal utilisation of the audit

In addition to the audits, the SAO, through its advisory activities, helps organisations take action to remedy the deficiencies identified during the audit process, thus ensuring that the risks to society, public finances and public assets are addressed in a timely manner.

Building on the experiences of the past years, the SAO has undertaken a significant role in 2021 in the development, dissemination, framework and conditions of performance culture, performance-based quality management and public spending. The objective of the impulses of the SAO in this area is to create a new approach to the use of public funds and public assets, performance orientation and its documented implementation, which forms the basis for performance audits. At the same time, performance audits - in addition to increasing knowledge - themselves promote the principles of effectiveness, and together with evaluation they can also summarise the experiences of society, thus reinforcing the social relevance of auditing.

- Evaluation is essential to improve the quality, accessibility and flexibility of public services and to review policies.
- It is particularly appropriate and useful when the views and experiences of those affected by the policy are needed, or when information on the policy context is not fully available.
- A variety of qualitative tools (such as interviews, questionnaires, focus groups, expert panels, case studies, benchmarking, etc.) can be used to better identify, explore and understand the impacts, outcomes and discrepancies of policies and programmes.

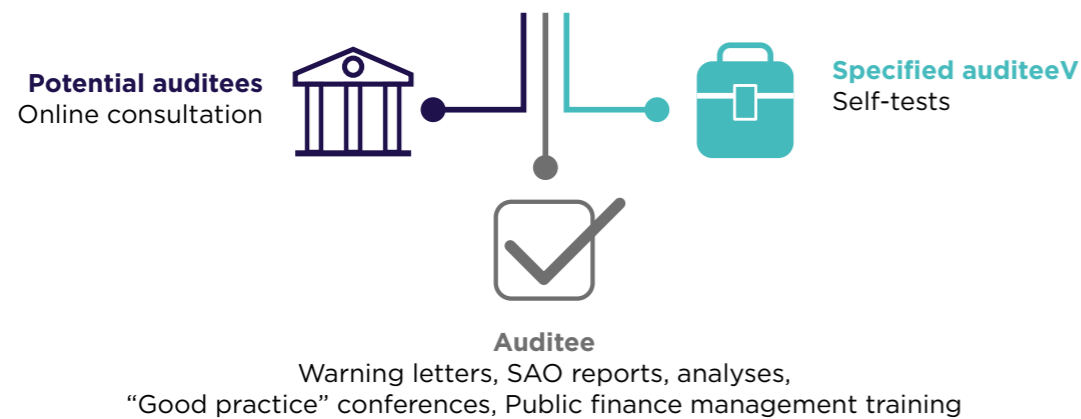
It is also important to ensure accountability and transparency in the management and preservation of assets in nationally owned companies, where, of course, the auditing of ownership rights is also indispensable. Municipal institutions and associations also provide services that are of key importance to society, such as kindergartens, crèches and social institutions. Supporting and auditing them is therefore essential to ensure the quality of their task performance.

It is clear that the SAO's new audit approach can significantly increase audit effectiveness, with a focused, interdependent approach to areas and issues. The steady increase in the number of audit sites in recent years naturally implies that not only the coverage of public funds and public assets under audit is increasing, but also the trust of society in the organisations using public funds and public assets can be strengthened, as citizens know that the organisations are subject to continuous audits and evaluations.

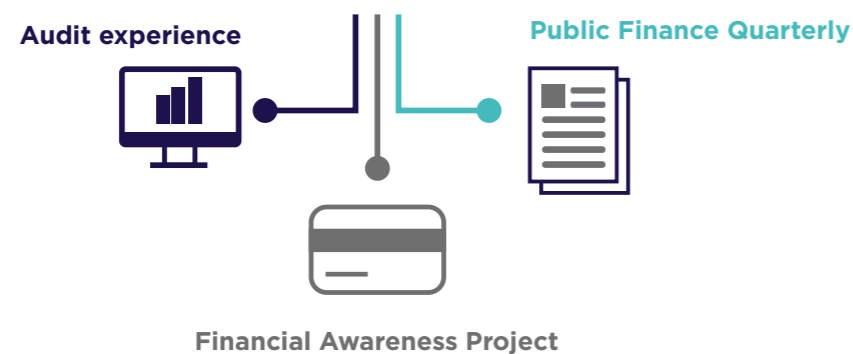


## ADVISORY ACTIVITIES OF THE STATE AUDIT OFFICE

### ADVISORY ACTIVITY FOR AUDITEES



### ADVISORY ACTIVITY FOR THE NATIONAL ASSEMBLY AND SOCIETY



## I.4. Focus on the advisory and knowledge-sharing activities of the State Audit Office of Hungary

The mission of the State Audit Office of Hungary, as set out in its strategy, is to promote transparency and sound public finances and to contribute to good governance through robust, professional and value-adding audits. With its Decision 17/2021 (16 June) OGY, the National Assembly declared its support for strengthening the advisory role of the SAO in order to improve the public finance situation, the performance of public tasks and public confidence.

Feedback from the auditees has shown that there is a growing demand for sharing the SAO’s audit experiences each year.

In the time of the pandemic, the rapidly evolving digitalisation has made it essential to meet these demands and needs. Recognising the importance of innovation, the SAO has been continuously monitoring innovative processes in the field of digitalisation in recent years, seeking answers to the question of how to exploit the opportunities offered by digitalisation and thus how to put its advisory tool at the service of the auditees.

Based on the experience of the last year and a half, the SAO has been able to effectively point public finance management organisations in the right direction by increasing the number of audits, sharing its experiences, self-testing and training, and promoting positive change. The Court has previously ensured this by organising in-person training sessions, mainly on good practices. However, as digital knowledge sharing or the hybrid method has recently shown, online training is no less effective and efficient than face-to-face training. Participants in digital training receive support in several stages, interactively and at their own pace, so they can learn at their own pace and according to their needs and time. With its online training courses and online advice, the SAO naturally aims to reach and support as wide a range of audience as possible.

### I.4.1. Advisory activity of the State Audit Office of Hungary

Making full use of the SAO’s findings, recommendations and evaluations, communicating messages to selected target audiences and harnessing the power of publicity are essential elements of the organisation’s strategic objectives. The utilisation of the work of the SAO, taking into account the above objectives, can be understood mainly at the following levels: the impact on the auditees and on legislation, and the impact of the SAO on the audit profession, the economy, society and public opinion.

#### Public sector management, accountable managerial conduct

The advisory activity of the SAO was endorsed by the National Assembly in its decision, the essence of which is that the SAO should expand its advisory activity on management systems and support ethical public finance management training for the organisations concerned that use public funds and public assets.

Therefore, the SAO cooperates with other public sector institutions, as well as with tertiary education institutions that focus on the ethical management of public funds in their teaching and research. The work of the SAO can be of benefit to society as a whole if it is based on a high level of professional and scientific knowledge, which enables it to perform its work as efficiently as possible.

As a result, the SAO has paid particular attention to scientific cooperation since its establishment. The aim of our partnerships is to contribute to the continuous professional development of the activities of the SAO and to the development of a professional-scientific dialogue at a societal level.

## Sharing best practices

The SAO's strategic objective is to share knowledge and support auditees in order to operate properly. By summarising its audit experiences and sharing the 'best practices' learnt, the SAO wishes to contribute to making the performance of the tasks of the organisations concerned more regular and effective, and the use of public funds by the institutions more transparent and orderly.

In order to improve public finance and management knowledge, the SAO provides best practices learnt from audits by organising conferences, knowledge-sharing days, training courses, workshops, sharing presentations available online, and disseminating publications and pocket guides.



In 2021, the SAO organised several professional conferences, round tables and online webinars focusing on current economic phenomena, professionally relevant processes, up-to-date research results and newly acquired experiences.

- "Financial Culture 2021 | From education to banking and everything behind it"
- "Sustainability and integrity in public procurement"
- "CAN WE SEE? - The SAO's utilisation debate"
- On the occasion of the 10th anniversary of the adoption of the Fundamental Law

In accordance with its statutory obligations, the SAO plays a key role in the enforcement of social control over political parties, and its audits contribute to the legality of the management of political parties.

It also considers it important to assist the parties with self-testing, in addition to its regular audits, and to provide them with periodic information to ensure that the public funds and public assets entrusted to them are used in a lawful, transparent and accountable manner. The SAO therefore invited all parties receiving regular budget support to a meeting in December, which was attended by the economic leaders of each party, and published a manual entitled "Accounting for funds used for parliamentary election campaigns".

## Training, consultations, knowledge sharing z

In 2021, in the framework of its advisory and knowledge-sharing activities to improve public finances, public service delivery and public confidence, the SAO launched online trainings for several target groups, consisting of around eight hundred organisations.

The SAO's online knowledge-sharing activity started in 2021 with the training of notaries, followed by the training of library, kitchen, public body and sports association managers. All of these organisations have a wide range of tasks, affecting a broad cross-section of society and impacting on the daily lives of citizens. The online training provided an opportunity to deepen professional knowledge through the presentation of the

experiences gained and best practices identified by the SAO in its audits, and thus to promote compliance with the rules that underpin effective operation.

Online training of the State Audit Office



The notaries who run the municipal offices are the guardians of municipal law and order. As guardians, one of their most important tasks is to ensure the integrity of the guarded areas, protecting them from external and internal threats. With the onset of the epidemic, not only the extremely rapid spread of the virus, but also the increased threat of corruption posed a constant threat, and the success of the fight against it was ensured by accountable managerial conduct.

### Testimonials:



*"All of the topics have contributed to my future work, just by being well put together and complementing my existing knowledge."*

*"I would happily listen to and watch training material on any subject related to management and auditing, because I find the current material very useful. It is clear and excellently structured. Thank you!"*

### Publications, pocket guides

In its audits, the SAO focuses primarily on those activities where its assessments are most useful to society at large. The organisation's main objective is to improve the public finance situation, to which it contributes greatly through its activities to use and further exploit its audit and analytical expertise in the wider community. By sharing its professional knowledge and experiences, it contributes to strengthening the integrity of the organisations concerned, to the development of accountable managerial conduct, and to the improvement of the public finance situation by promoting transparency and accountability in public finance.

In 2021, the SAO introduced a new advisory tool, the pocket guides for managers, which summarise all the relevant information to support the manager of the audited organisation and to improve the organisation's performance from a public finance perspective. The pocket guides, which present both the criteria and the recommendations of the SAO for good governance, can serve as a guide for the work of the management, as they enable the managers of the organisations to take the necessary measures to achieve a positive shift in the management of the organisation in compliance with public finance requirements and in its operation with integrity and regularity, thus contributing to the sustainability of the organisation's activities.

In 2021, the SAO prepared a pocket guide to support the heads of organisations for five auditee groups. The recommendations in the pocket guides are marked with the 📄 icon.

- "POCKET GUIDE FOR HOSPITAL MANAGERS - for a management in compliance with public finance requirements"
- "POCKET GUIDE - for the heads of public bodies to manage in accordance with the basic accounting rules"
- "POCKET GUIDE for the heads of civil society organisations to ensure the legitimacy of their management"
- "POCKET GUIDE - to strengthen municipal ownership of companies"
- "POCKET GUIDE for the managers of public funds and national assets for the fulfilment of the obligations provided for in Act C of 2000 on Accounting"
- "POCKET GUIDE for the accounting of funds used for the parliamentary election campaign"

### Presentation of key documents

In order to strengthen the supporting activities of the SAO, in 2021, the essential documents under the responsibility of the first line manager of the auditee, based on statutory obligations, which are essential from a public finance perspective to ensure the responsible use of public funds, the protection of assets, integrity and management due



diligence, were identified by audit subject and type of auditees. In the course of its audits, the SAO determined the audited documents from the auditees according to the principle of materiality, as these documents are of decisive importance for the social relevance of each organisation. In the absence of the essential documents, the proper performance of the tasks of the organisations is not ensured and the use of public funds is jeopardised.

## I.4.2. Social publicity

The SAO continued its active outreach activities in 2021, with a strong emphasis on continuous and extensive public information, transparency and open and understandable communication. To this end, the SAO continued to be an active player in the various media channels in 2021.

### Online information, transparency

In 2021, the SAO published a total of 974 articles and 32 publications on the SAO News Portal ([www.aszhirportal.hu](http://www.aszhirportal.hu)) and on its official website ([www.asz.hu](http://www.asz.hu)). The SAO News Portal published an average of 81 informative news items per month, and including public holidays and weekends, the SAO published an average of 2.7 new articles per day.

In 2021, nearly 147,000 users clicked on the official website of the SAO, and approximately 103,000 users visited the SAO News Portal. The number of page views was more than 836 thousand for [asz.hu](http://asz.hu) and 397 thousand for the SAO News Portal in 2021.

The SAO reached 1.2 million people with its financial awareness messages through other innovative social media tools.

### Press releases

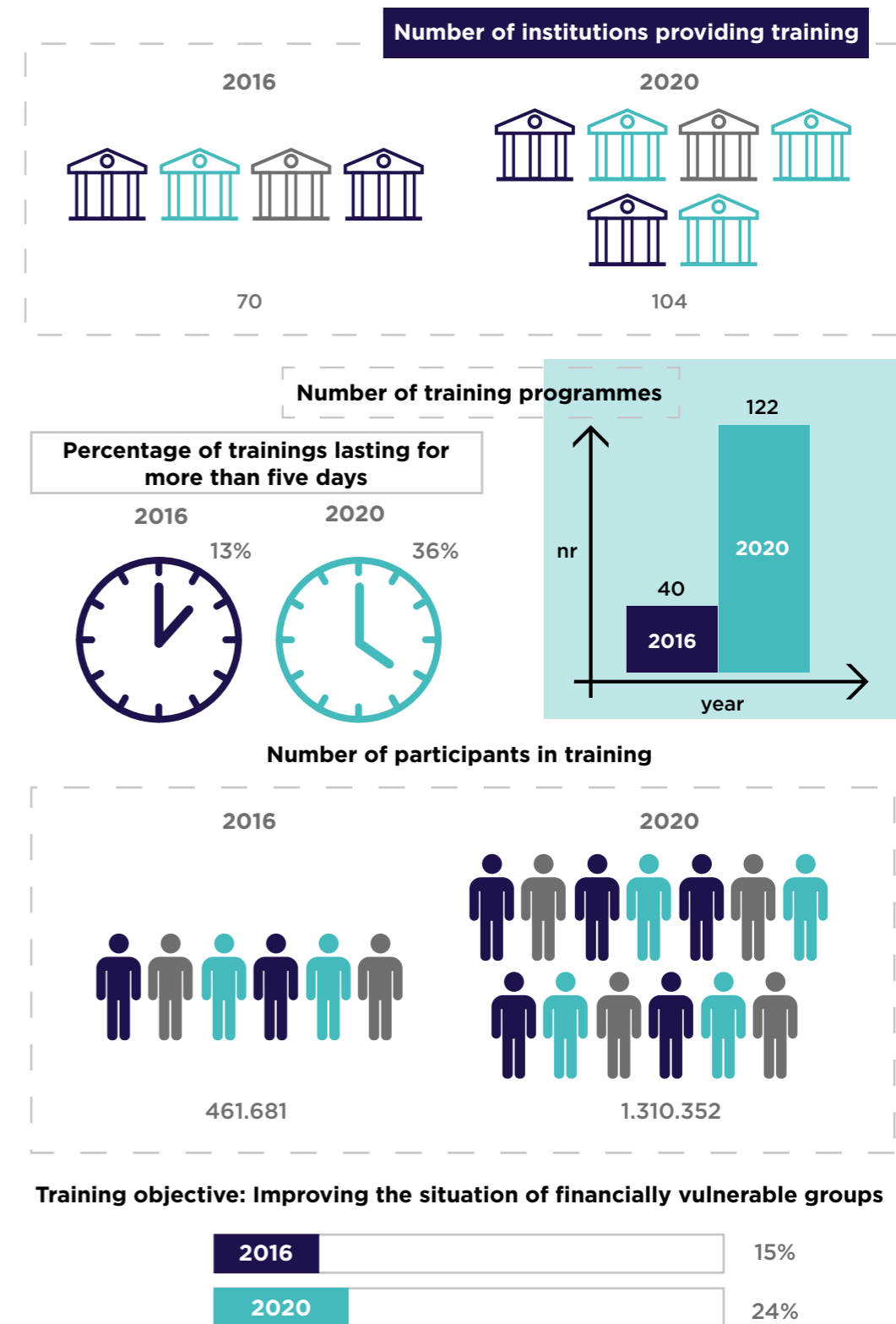
In 2021, a total of 3,513 news items and articles on the activities of the SAO were published in Hungarian-language media. This represents an average of almost 13 news items per day, which shows that the SAO's proactive communication ensured the visibility and organisational transparency of public audits in 2021. Of the 3,513 items, 2,810 were published online, 286 on radio and television and 417 in print.

### Financial awareness and financial literacy have been the SAO's social responsibility for the past 11 years

For 11 years now, the priority area of the SAO's social responsibility has been to strengthen the financial awareness of the Hungarian population. To maintain stability, families need to plan, manage, save and spend as responsibly as the government and business actors. The role of the state is to plan investments well, so that they generate extra income for businesses and families. Encouraging sound management of our finances is seen by the SAO as an important task, helping people to achieve social well-being and a more satisfying life.

The SAO continuously monitors and measures domestic phenomena and processes related to financial awareness, as a result of which it published several professional analyses in 2021:

- Survey on the financial literacy of young people in higher education,
- An analysis of the state of financial awareness, with a special focus on the challenges of digitalisation,
- Survey of financial literacy development programmes, comparative analysis.





The Financial Awareness Project of the SAO was established in 2016. It renewed the social responsibility theme that was organised and undertaken since 2011. The primary objective of the project is to promote financial literacy and community responsibility among the Hungarian population.

In 2021, the SAO further broadened its professional contacts in order to achieve the project objectives. As part of the active cooperation with Nemzeti Művelődési Intézet Nonprofit Kft, the staff of the SAO trained public education specialists. Another significant step was that the animated short films produced by the Financial Awareness Project were also shared on the social networking sites of the county government offices, thus providing an opportunity to raise the public's interest in financial awareness.



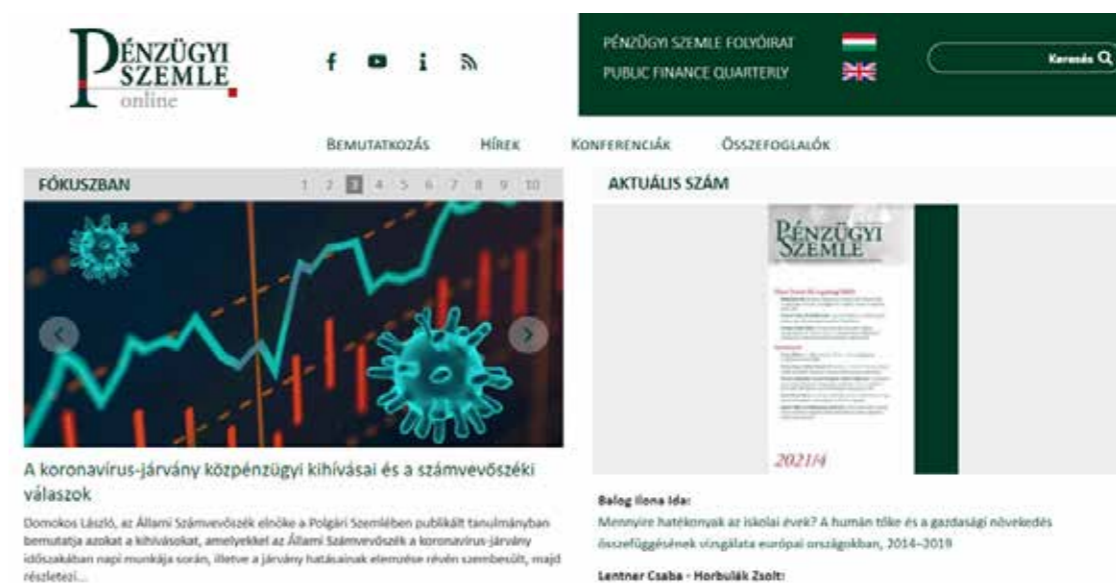
Being financially aware is an integral part of being health-conscious, and the two are closely linked, as health is a major risk to family budgets. In addition to its obvious detrimental effects on health, unhealthy lifestyles have a number of negative financial consequences, which, in addition to individual health expenditure, can also have an impact on public finances, for example through publicly funded hospitalisation or pharmaceutical subsidies. A related analysis by the SAO on the risks of overconsumption of medicines and dietary supplements highlighted the public finance problems of unhealthy lifestyles and overconsumption of pharmaceuticals, with inappropriate use of medicines and supplements resulting in unjustified expenditure for social security and the potential health costs to healthcare and the national economy.

### 1.4.3. Professional and public knowledge sharing

The scientific activity of the SAO contributes to the professional-scientific recognition of the organisation and the soundness of its professional activities, as well as supporting the SAO's areas of social responsibility. Through its professional, public knowledge-sharing activities, the SAO aims to promote the improvement of public finances by sharing exemplary practices and knowledge.

### Public Finance Quarterly Group - focus on key scientific issues of 2021

The Public Finance Quarterly Group and its knowledge products, the Public Finance Quarterly public finance journal and the Public Finance Quarterly Online scientific portal play a key role in the professional and scientific image of the supreme audit institution in Hungary. To this end, the SAO has devoted considerable attention to the development of the journal and the online portal over the past decade. Public Finance Quarterly (Pénzügyi Szemle) is a public finance journal published by the SAO in both Hungarian and English, dating back half a century. The articles published in our journal are consulted in major international databases with high accessibility and authority, such as the English Elsevier Scopus, WoS, RePEc or the Chinese CNKI. The primary aim of the journal is to provide a credible picture of the public finance system and, in the light of the most important financial and economic contexts, the main features of the functioning of the public sector and the national economy, the efforts to catch up and build the future, the latest trends in economics and the professional debates at the forefront of public interest. Furthermore, the articles published in the journal contribute to the development of the scientific basis of international measurement, the challenges facing public welfare systems, the subjective aspects of finance, and the successes and risks of the Hungarian economy.



Public Finance Quarterly published 48 issues and 4 thematic special issues between 2010 and 2021, with a total of 471 publications. In 2021, our journal published four issues and two additional thematic special issues.

The year's issues focused on the following topics:

- "Focus on Resilience", "Financial and accounting competences"
- "New impacts in retail finance"
- "Human capital and economic development"
- "Digitalisation", "Performance and its measurement in the public sector"

### Tools to support professional-scientific and public knowledge sharing

Since its establishment, the SAO has paid special attention to the publication of the results of its audit and analytical activities in the national and international scientific community, and the publications and lectures it has given have contributed to the wide utilisation of the SAO's activities and to the development of a professional-scientific dialogue at the social level.

In addition to the development of management training started in previous years, the SAO also contributed to the implementation of distance learning, including the digital transformation of the teaching materials of management training systems. Within the framework of the cooperation with the National University of Public Service, for students of the MA in Governance and Management, a pre-recorded video presentation was prepared for the subject 'Public Finance – Public Accounting' on the system of budgetary auditing and the tasks of the SAO in connection with the draft budget bill and the final accounts. In order to strengthen its professional and scientific recognition, the SAO has paid special attention to scientific cooperation since its establishment.

Graduates of the SAO and the University of Miskolc's Public Service Analyst and Public Service Performance Manager programmes can acquire the knowledge to plan, programme, conduct, evaluate, manage and supervise the various stages of performance audits.

The objective of its partnerships is to contribute to the work of the education and training centres, the activities of the scientific workshops and the preparation of policy-making material, based on the audit experiences, in order to support the real and effective utilisation of the SAO's activities at the societal level.

### Professional knowledge sharing - international knowledge sharing forums and events

In 2021, the SAO participated in 70 international knowledge-sharing forums, most of which took place online due to the epidemic situation. The SAO organised 10 international conferences.

In 2021, cooperation with international professional organisations continued, with INTOSAI, EUROSAI and other bilateral cooperation being the most intensive.

The European Organisation of Supreme Audit Institutions (EUROSAI), a European regional organisation of the International Organisation of Supreme Audit Institutions (INTOSAI), is one of the most important forums for professional cooperation and knowledge sharing for the State Audit Office of Hungary. The main body of EUROSAI is the Congress, which meets every three years, is attended by all the members of the organisation and whose eleventh plenary session was finally held in April 2021, after a forced postponement. In the light of the coronavirus epidemic, the participating European supreme audit institutions gathered for the first time in the history of the Congress in an online meeting to discuss EUROSAI's professional issues for 2017-2021 through reports and voting. During the plenary session, the SAO contributed to the shaping of the technical issues on the EUROSAI agenda through its active participation in the online voting.

The 'Webinar Wednesdays' programme series, the aim of which was to create an interactive international virtual professional platform where staff of supreme audit institutions can exchange experiences and share ideas on various topics.

Within the framework of the innovative series, a total of seven virtual events were held from April to November 2021, on the following topics:

- "Opportunity in an emergency" - Capacity development responses to a changed environment
- Workshop on the follow-up to the professional workshop on the Audit of political parties and the role of supreme audit institutions in promoting a culture of integrity
- "DigitaliSAlon" - The digital supreme audit institution - the digital switchover is the way to a digital Europe
- Transparency and good governance - in the budgetary process
- The societal utilisation and transparency of public finance audits
- Financial Awareness Project
- Quality management

Other international professional webinars organised by the SAO aim to enable supreme audit institutions from around the world to engage in an active dialogue and to use the opportunities offered by digitalisation to share their experiences and good practices online on the following topics:

- "Webinar on good practices in the internal control system"
- "Webinar on the independence of supreme audit institutions"

In 2021, the SAO cooperated with the members of the V4 group of countries in several joint audits. The Slovak partner institution participated in the international joint audit on "Protection of the population against contagious diseases" and "Audit of measures to lift those who live at risk of poverty", while Poland and Slovakia participated in the joint audit on plastic waste management, alongside the State Audit Office of Hungary. In addition to the cooperation in joint audits, it is worth mentioning that in February 2020, the peer review of the Supreme Audit Office of the Slovak Republic was launched, in which experts from Hungary participated alongside their Finnish, Polish and American colleagues. Staff from the SAO assessed the communications area of the Slovak partner institution.



In the spirit of cooperation, on 27 September 2021, a personal meeting took place between the supreme audit institutions of the V4 countries, which was attended by Marian Banaś of Poland, Miloslava Kala of the Czech Republic, Karol Mitrík of Slovakia and László Domokos of Hungary. The meeting confirmed the commitment of the V4 supreme audit institutions to continue their intensive cooperation in the near future.

## II. AUDIT EXPERIENCES

### II.1. The activities of the State Audit Office of Hungary for the development and consolidation of an integrity approach

Article 39 (2) of the Fundamental Law of Hungary states that “every 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 purity of public life.” In recent years, the fight against corruption has focused on prevention, as the UN has identified the state of emergency caused by pandemic COVID-19 as a major risk of corruption and malfeasance. The strategic and sustainable response to corruption is to build and strengthen integrity, in which the SAO has a prominent role.

#### II.1.1. The SAO’s statutory mandate to assess areas of corruption risk and to operate the Integrity Project

In 2009, the National Assembly mandated the SAO in its Resolution No 35/2009 (12 May) to investigate areas of corruption risk in line with its strategic objectives and to implement the already approved priority project on mapping corruption risks.

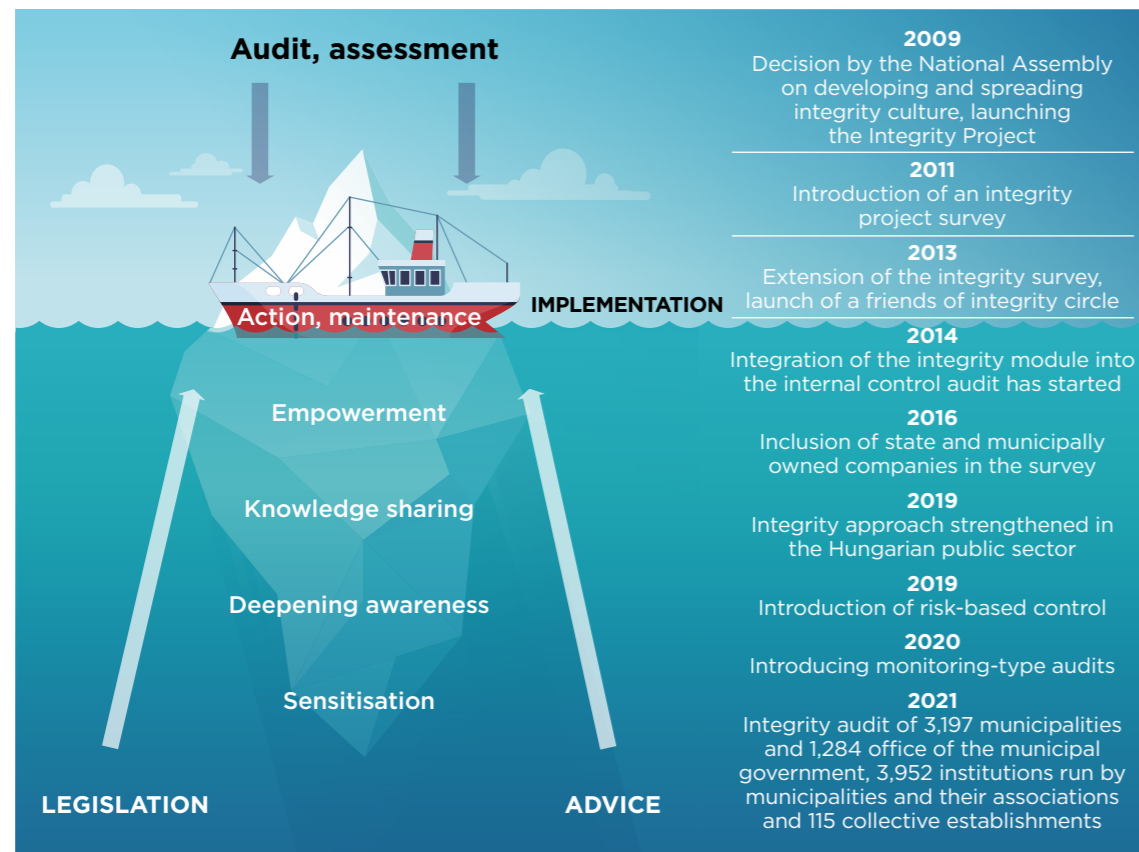


In accordance with the decision of the National Assembly, the SAO has conducted an annual Integrity Survey based on the Dutch experience to promote and disseminate a culture of integrity in domestic institutions since 2011.

The Integrity Surveys were closed in 2020, but a different type of tool is now available for public institutions. From 2021 onwards, the Integrity Survey will continue with a new method of self-assessment. All 13,000 public institutions have the opportunity to assess their own integrity at any time of the year and compare it with their previous data. During the self-assessment, public bodies are asked to answer questions identifying risks and controls, at the end of which they will receive a one-page self-assessment sheet with a thorough evaluation of specific areas.

With the annual Integrity Survey, the SAO first spread the concept of integrity in the Hungarian public sector, and has gradually developed the method into an audit in recent years. By 2021, it further strengthened the integrity position of organisations using public money by providing extensive advice and knowledge sharing, thus increasing their resilience against corruption.

SAO's model for action to strengthen integrity in Hungary in 2009 – 2021



This individual and collective commitment was demonstrated by the 10th Integrity Roundtable, which took place on 6 December 2021, where the leaders of public organisations set out values and actions year by year that have already contributed significantly to the whitening of the Hungarian economy over the past 10 years.

### II.1.2. Integrity in the public sector and the spill-over effects of the COVID-19 pandemic

The extraordinary situation created by the pandemic has made it necessary to reaffirm and rethink the commitment to integrity. It has made it even more visible than before that integrity is a quality that fosters trust, and is not unnecessary bureaucracy. If we face the challenge with an open mind to change, the crisis will contribute to strengthening integrity, not weakening it.

In spring 2020, the COVID-19 outbreak became an unstoppable pandemic, causing a surge in demand in some sectors, a reduction in supply and a disruption of global supply chains. Health systems around the world have faced extraordinary pressures and the resulting management and logistical challenges. This has affected the provision of public services and the vulnerability of public institutions to corruption. In emergencies, and in the context of the resulting response measures, ensuring integrity and freedom

from fraud is a challenge, as in emergency situations institutions may be forced to choose between saving lives immediately and complying with the rules.

As some elements of the changed management environment in the wake of the pandemic may compromise integrity, the pandemic situation has raised new, unprecedented dilemmas and challenges in the area of integrity and fraud prevention. In order to preserve integrity and prevent corruption, the SAO has for the first time explored approaches and tools that can support integrity and fraud prevention in an pandemic situation.

Since integrity management systems in public institutions are designed to address risks in traditional environments, it is important to identify new challenges accurately. The priority of saving lives has been contrasted with the previous requirement for rigid compliance. The new situation could no longer be judged by the old rules, however, the emergency could not automatically justify the relaxation of rules and lack of compliance.

Effective but prudent reflection on the principles of change management, a kind of flexibility in the correct application of the rules, was therefore needed. The pandemic provided a unique opportunity to identify and take steps to reduce unnecessary bureaucracy. The SAO's proposal to simplify the process of exercising management powers is an example of how cutting unnecessary bureaucracy and strengthening useful regulation can protect public money, strengthen responsiveness and reduce the potential for corruption. And digitalisation strengthens the documentation of processes and reduces the corruption risks associated with personal decision-making. Strict inventory management discipline is also essential for the provision of quality public services. The combined use of appropriate economic incentives and sanctions can also be integrity-enhancing measures at a time of increased exposure to corruption risks.

### II.1.3. Promoting the enforcement of integrity through audits

#### Auditing the management of parties, party foundations, campaigns and elections

The objective of the SAO's strategy is to promote integrity-based, transparent and accountable use of public funds. At the societal level, parties are a key focus for the enforcement of integrity and the prevention of corruption in the use of public money. The SAO is required by law to audit every two years the management of parties and their foundations receiving budget support, thus contributing to an objective public overview of the management and operation of parties and party foundations.

**Audit of the legitimacy of the parties' finances** continued in 2021, with the SAO completing its audit of the management of five parties receiving regular budget support. Pursuant to Section 5 (11) a) Act LXVI of 2011 on the State Audit Office of Hungary (SAO Act) and Section 10 (1) of the Political Parties Act, the SAO is entitled to audit the legitimacy of the management of political parties. According to the law, the SAO audits every two years the management of parties that have received regular budget support.



**The audit of the legitimacy of the management of party foundations** continued in 2021. Pursuant to Section 9/A (1) of the Political Parties Act, the audit of the legitimacy of the management of party foundations established for the purpose of scientific, educational, research and educational activities in the interest of the development of political culture is the responsibility of the SAO pursuant to Section 4 (2) of the Party Foundations Act. Pursuant to Section 4(4) of this Act, the SAO audits every two years the management of party foundations that have received state budget support.

**In the course of the audit of parties not receiving regular budget support**, the audit experience of the 2014 and 2018 parliamentary elections and the public interest in the elections highlighted the risks in the operation and management of parties not receiving regular budget support. The majority of political parties in Hungary are not eligible for regular central budget support, as they did not obtain 1% of the votes of the electorate participating in the parliamentary elections. However, if the legal conditions are met, parties can receive budget support for their election campaigns and operations. In these cases, it is crucial that parties involved in the exercise of democratic public power and using public funds act in compliance with the law, are transparent in their management and set an example to other organisations.

Upon request, the SAO audits the use of budget support received for election campaigns by parties that do not reach 1% of the electorate's votes. Such audits were performed on the basis of a request received for the 2014 elections, but no such request was received for the 2018 elections, so no audit was conducted for this period.

With a view to the 2022 general elections, the SAO considered that the time had come to perform a full audit of parties that do not achieve 1% of the electorate's vote. This meant the audit of a total of 173 parties. As a result of the audit, a purge process has been initiated, as several parties have taken action to establish and verify the conditions for legal and transparent management, and several parties have also informed of its dissolution.

A further result of the audit is that one party, whose transparency had been a risk in the 173 party audits, has been nominated for the 2022 parliamentary elections, but the risks have been significantly reduced as a result of the measures taken by the party and the evaluation of these measures. The experience of our audit therefore shows that, while there remain significant risks in the areas of accountability for budget support and legitimacy of operations, a number of parties are not eligible for budget support as a party in the absence of a national list, which has eliminated the risks of misuse of public funds in this area.

**Campaign and election audits** aim to make the campaign costs of parliamentary election campaigns transparent and to ensure equal opportunities and fairness of elections, the framework for which is summarised in Act LXXXVII of 2013 on the Transparency of Campaign Costs related to the Election of Members of the National Assembly. According to its provisions, in line with the principles of equal opportunities and fairness of elections, all candidates for single mandate constituencies are entitled to receive the same amount of budgetary support to cover their campaign expenses in the parliamentary by-elections, which may be used in accordance with strict accounting rules.

## **Audit of municipalities and municipal institutions - integrity and internal control systems**

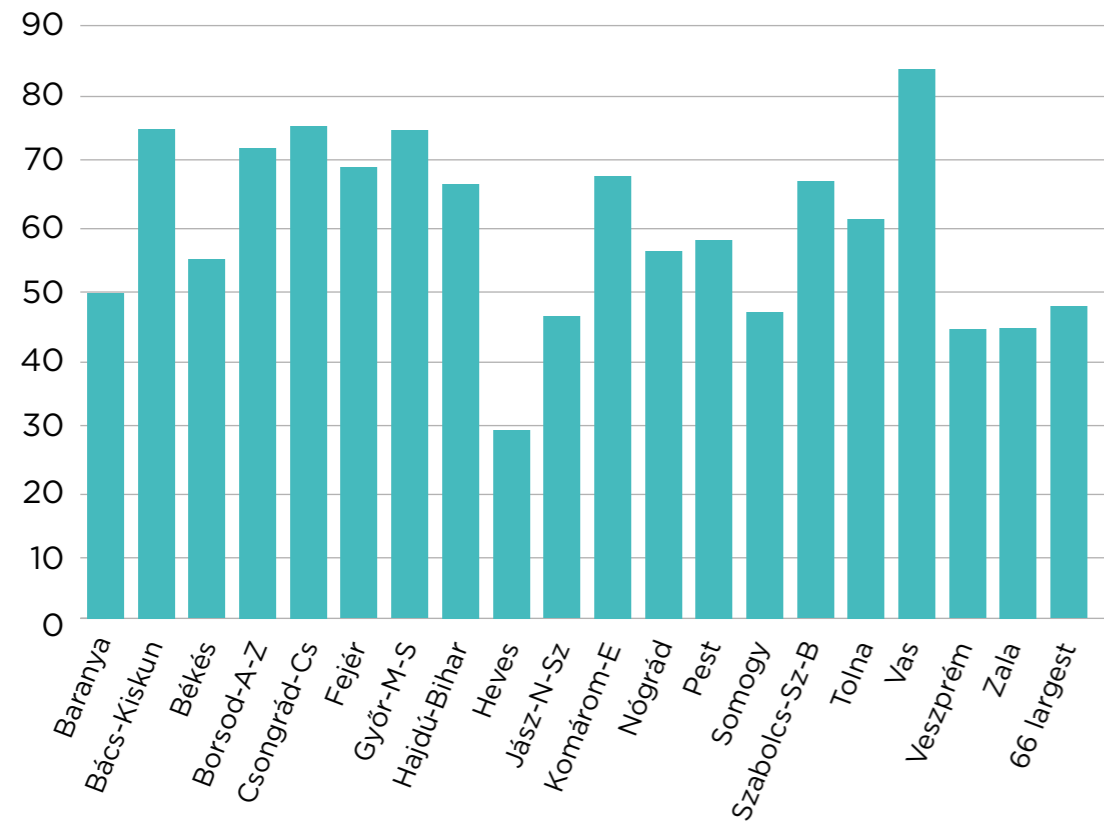
It is a fundamental societal expectation that municipalities should operate with integrity in the provision of public services to citizens. All citizens should receive public services provided by municipalities on the basis of the same principles and on the same basis, and this should be reflected in the satisfaction of those concerned.

The absence of integrity-based principles weakens the rule of law, and building and developing an operating environment around them and managing risks requires responsible leadership. According to risk assessments by several international organisations (UN, OECD) and the SAO, the pandemic poses an increasing risk of corruption or irregularities in operations. It is in this context that the SAO's audits of municipalities and their offices have contributed to improving the integrity controls in place, thereby reducing the vulnerability of municipalities to corruption.

The current systemic monitoring assessment of the integrity of 3,197 municipalities and 1,284 offices of the municipal government in Hungary, which started in spring 2020 and ended in early 2021, included a multi-level advisory service. The SAO had already provided, prior to the audit, a list of 26 documents – regulations and records that regulate day-to-day operations and help to protect against corruption – which were subsequently assessed. At the second level of advice, the SAO facilitated the reporting of data by municipalities, which resulted in a 4.3 percentage points increase in the proportion of municipalities reporting responsible management.

The SAO sought close cooperation with the managers of the municipalities, and the cooperating municipalities were able to correct the shortcomings already during the audit for the future. As a result of the evaluation and advice, the responsible managers of a total of 1,055 municipalities have already taken measures in 2020 to strengthen and build up the essential conditions for integrity in reporting. For a further 1,329 municipalities, it identified opportunities for improvement in 2021, which managers could exploit depending on their own responsible leadership. The systemic assessment has also identified municipalities – those who did not cooperate (70) and based on an aggregated assessment of risks additional 132 municipalities –, whose integrity building will be supported by a new in-depth audit by the SAO.

Municipalities with low integrity risk in proportion of counties (%)

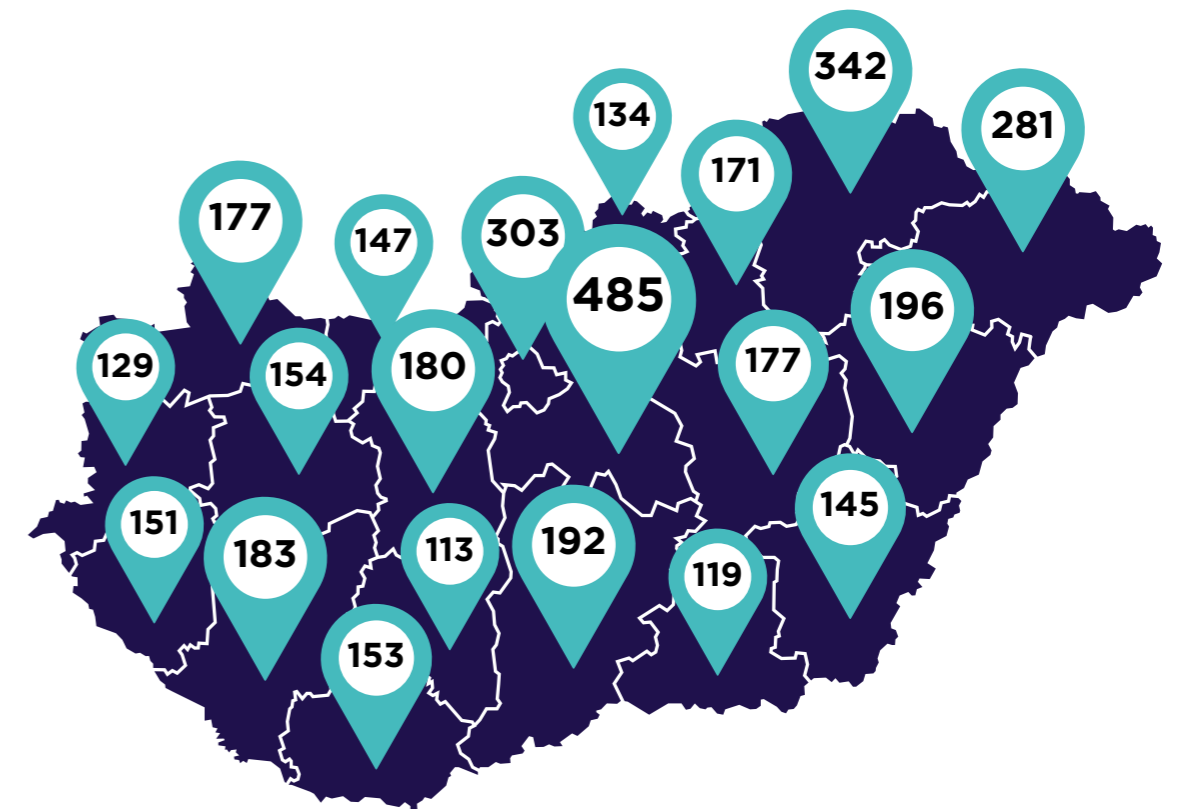


The audit assessed the integrity of the municipalities with grades from 1 to 5. 58.4% of auditees received a rating of 5, while a further 25.6% received a rating of 4, and the integrity of municipalities and offices scored nation-wide an average of 4.3.

In total, the SAO has produced 21 reports on the systemic assessment. A national summary report, one on the 66 largest municipalities (metropolitan, 23 metropolitan district municipalities, 23 towns of county right, 19 county municipalities) and 19 reports on the experiences and conclusions of the assessments of the municipalities in each county.

Following the municipalities, the SAO assessed the design of the essential elements of the internal control system and integrity of a total of 3,932 institutions – 591 under the control of municipal associations and 3,341 under the control of municipalities – in the framework of the present monitoring audit in 2021.

The Act on Municipalities in Hungary, in line with the broad exercise of local public authority, gives local governments a wide scope to perform their tasks and provide public services in a wide variety of forms. They have wide scope to establish institutions and to perform their tasks through voluntary associations. The institutions under their control provide a wide range of public services and the quality of their operation has a direct impact on the lives of the citizens who use them.



Today, it has priority importance for the leaders of the institutions to recognise and reassess integrity risks and to establish transparent, well-regulated systems and decision-making mechanisms. The proper design and functioning of internal control systems, including integrity controls, also contributes to the strengthening of public confidence in municipal institutions. The 15 documents assessed for each institution must be available on a permanent basis, as they are essential for the regularity, regular and transparent management and fraud-free operation of the institution concerned. Based on the evaluation of the documents, the SAO has identified the main risk areas in order to further improve integrity, and has already called the attention of the managers of the institutions to mitigate the risks for 2021, in parallel with the audit. As a result, in more than 8,000 (45.0%) of the nearly 18,000 risk areas identified in the 3,408 management letters, the managers of the institutions have taken or planned measures in the year under review.

In the institutions, the responsibility for setting up the regulatory environment, i.e. approving and publishing the regulations, lies with the manager of the institution. The two most common errors identified by the audits were that, in some areas, regulations were not drawn up or approved by the manager of institution, despite the legal requirements.

In 17.2% of the 3,932 auditees, the manager of the institution complied with the statutory regulatory obligation, which is an essential condition for integrity controls, in all the areas audited. In 11.1% of the institutions, the manager of the institution went beyond the legal requirements to strengthen integrity, recognising the need to establish additional integrity controls not required by law.

As a result of the timely actions taken in response to the warning, 41.1% of the auditees have a low level of risk or, with the implementation of the planned actions, the risks will be reduced to a low level.

The SAO published a total of 22 reports in December 2021 assessing the integrity of municipal institutions. At the same time as publishing the reports, it contacted the governing bodies of the institutions that had not responded to its warning or had not or only partially responded to the risks identified. It also drew the attention of the managers of the institutions concerned to the need for further action to improve the public finance situation.

As a result of the SAO's warning and advice, the percentage of institutions with low integrity risk increased from 25.2% before the advice to 48.3% by 15 February 2022.

### Audit of public bodies - audit of the performance of public tasks

In 2021, the SAO audited the performance of public duties by the Wine Communities, Wine Community Councils and Wine Region Councils, Municipal Fire Brigades, the Hungarian Hunters' National Chamber and its regional organisations, professional, economic, interest representation and other public bodies.

In Hungary, public bodies are not created by their members of their own free will, but are established by Parliament through statutory provisions and it is also the Parliament's right to abolish them.

In 2021, the SAO evaluated the activities of the Municipal Fire Brigades, the Hungarian Hunters' National Chamber and its regional organisations, as well as professional, economic, interest representation and other public bodies, and the operation of the Wine Communities, Wine Community Councils and Wine Region Councils.

These public bodies are listed in the OBH's (National Office for the Judiciary) register and their role is of particular importance, as they perform a public function and exercise professional and ethical supervision over their members. The tasks they perform affect a wide section of society, and are therefore of public interest. Their sound management is essential for the achievement of the professional objectives they have set themselves in order to fulfil their public tasks and to maintain and strengthen public confidence in them. Society expects them to manage the financial resources provided for them to fulfil their tasks and the compulsory membership fees and membership dues of the wine community in a transparent and accountable manner, and to use them as intended. Thus, in each of the areas assessed, improving the delivery of public services and enhancing public confidence should be an ongoing expectation.

In its assessment, which followed an advisory monitoring approach, the SAO assessed the basic conditions for the regular, transparent and accountable use of resources on the basis of the most relevant documents. In doing so, the Audit Office contributed to ensuring that public bodies manage public funds and the fees and dues of the wine communities in a transparent and accountable manner, and that the public and the members providing the funds are properly informed about the functioning of the public bodies.

## PROVIDING PUBLIC SERVICES IN THE WINE COMMUNITIES AND WINE REGION COUNCILS HAVE IMPROVED



- 115 SAO audited a public body\*
- 3 Public body established its basic rules for operation and fund management
- 112  SAO addressed a public body in a warning letter



- 71 The manager of the public body replied to the warning letter and took steps to promote positive changes
- 32 Public body's compliance with the law has not improved

\*1 public body could not be audited



## PROVISION OF PUBLIC SERVICES HAS IMPROVED IN MUNICIPAL FIRE BRIGADES, PROFESSIONAL, ECONOMIC, INTEREST REPRESENTATION AND OTHER PUBLIC BODIES.





- 94 SAO audited a public body\*
- 7 Public body established its basic rules for operation and fund management
- 92  SAO addressed a public body in a warning letter



- 71 The manager of the public body replied to the warning letter and took steps to promote positive changes
- 6 Public body's compliance with the law has not improved

Of the documents audited by the SAO, a report that provides a sound and fair overall picture of the auditees' operations, assets, finances and income is essential to ensure transparency and accountability in the operation and management of the body. The preparation of an inventory of receivables in accordance with the legal requirements is essential to ensure that the receivables reported in the accounts are supported by evidence. On the basis of the separate recording of the wine communities' contributions, membership fees and state budget subsidies, the separate presentation of the wine communities' contributions and membership fee income in the profit and loss account ensures the reliability of the accounts.

Of the 209 public bodies audited by the SAO, one was not auditable and therefore not transparent and accountable, and the Audit Office found no errors in two public bodies. Eight public bodies had established basic rules for their operation and management, 113 public bodies also had mandatory regulations assessed as part of the essential documents, but could have further strengthened the regulatory framework for their operation and management by taking measures to correct their content. A further 85 managers were required to take action to establish a basic regulatory framework for their operation and management.

The public bodies were able to remedy the weaknesses during the audit and the SAO addressed the managers of the public bodies concerned during the evaluation in order to promote positive changes as soon as possible.

Following the warning, a total of 142 public body managers have taken steps to initiate positive changes. As a result of the actions taken, their public finances and the delivery of public functions have improved. Thirteen managers responded to the warning letter, but did not take the opportunity provided by the SAO and most of the weaknesses identified were not corrected, thus missing the opportunity to improve public confidence. A further 11 managers also responded to the warning letter, but took no action at all to initiate positive changes. 38 public body managers did not respond at all to the SAO's warning letter. In their cases, compliance with the law, which is essential to ensure the regular, transparent and accountable use of resources, and thus the delivery of public services, has not improved.

### Auditing the integrity of budgetary bodies

Public tasks are performed primarily through the creation and operation of budgetary bodies. Pursuant to the Fundamental Law, all organizations managing public funds shall give account in public of their management of public funds. Public funds and national assets must be managed in accordance with the principles of transparency and public accountability. In order to promote transparency in public finances, protect public assets and safeguard against corruption, it is justified to audit entities belonging to the central sub-system of public finances.

Using a new audit approach, the SAO audited 127 budgetary bodies and provided advisory services to support their transparent operation and the lawful management of public funds and assets.

The objective of the audit was to determine whether the control environment for the recording of assets has been established at the central and public bodies, whether the accounting of assets of the budgetary bodies has been ordered, and whether rules and

processes have been established to ensure that the requirements of effectiveness are enforced in the activities of the budgetary body.

The audit found that the majority of the auditees had not established a control environment that ensured that the full range of assets were properly accounted for. The majority of the auditees did not demonstrate that they had established controls to mitigate risks to the achievement of organisational objectives and to ensure that decisions were based on sound judgement as part of their control activities. The weaknesses identified posed a risk to the safeguarding of national assets and the enforcement of effectiveness requirements.

### Improvements in the public finance situation of budgetary bodies



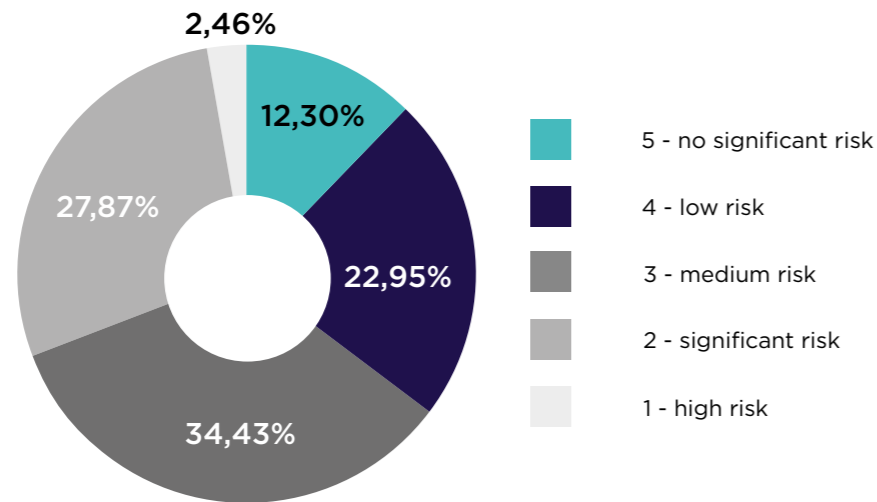
Based on the results of the audit, within the scope of its advisory activity, the SAO formulated 587 warnings to managers of auditees in 122 warning letters. The vast majority of the audited budgetary bodies, 113 organisations, replied to the warning letter. The managers of the budgetary bodies reported 489 actions already implemented or planned, which, on the basis of the evaluation of the replies, were likely to remedy the deficiencies identified in the warning.

Thus, as a result of the SAO'S advisory activity, the majority of budgetary bodies have improved the establishment of a legal and transparent control environment for the management of public funds and assets, and the enforcement of efficiency requirements.

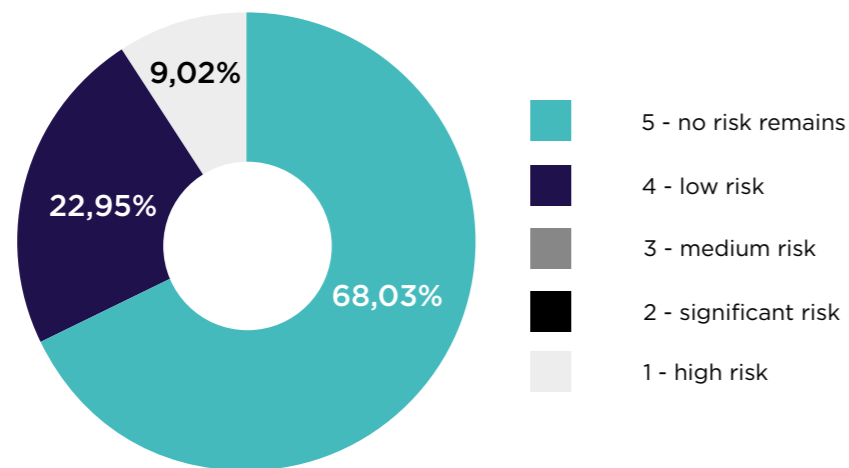
The SAO assessed the risks identified during the audit on a five-point scale. A non-significant risk rating (a rating of 5) was given to budgetary bodies whose managers received two or fewer warnings, while a rating of 1 was given to organisations receiving seven or more warnings. In addition, a five-point scale was also used to assess the cooperation of the auditees and the effectiveness of the actions indicated in the documents sent, based on their responses to the warning letter. The most favourable rating (5) was given to those organisations that had taken appropriate action on all the warnings within fifteen days, thus addressing the shortcomings identified. The lowest rating (1) was given to those organisations that failed to comply with their duty to cooperate as required by the SAO Act or whose actions were not adequate to address the deficiencies identified by the audit.

The arithmetic average of the assessment based on the weaknesses identified by the audit (inherent risk rating) was 3.1, while the average of the assessment of the residual risks based on the responses to the warnings was 4.4. This indicates that the SAO's advisory activity was effective, as the organisations' rating improved by about 70 percentage points, from 3.1 to 4.4.

Evaluation based on the distribution of warning letters

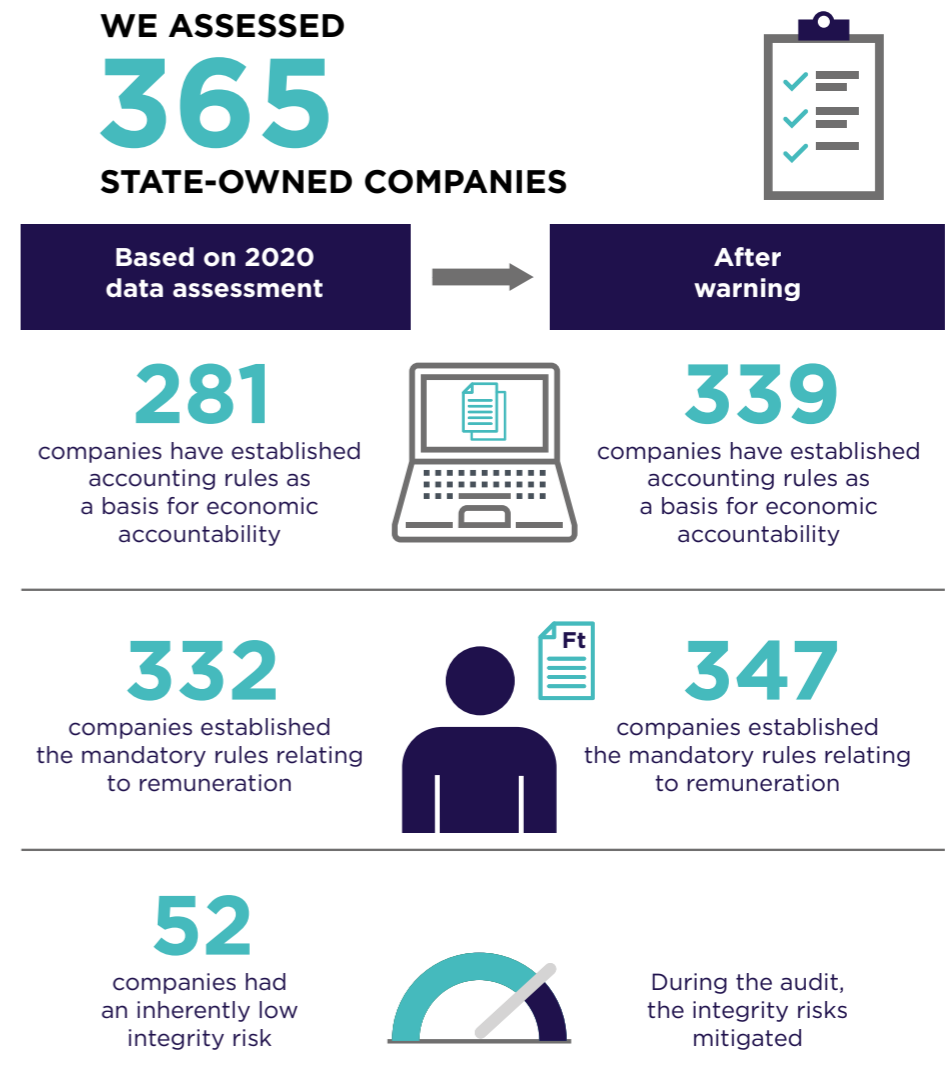


Distribution of remaining risk ratings



### Audit of the integrity of state-owned enterprises

Responsible management of public assets and accountability for their condition, both to the owner state and to society, requires the establishment and operation of safeguards. These imply the need to apply integrity controls. Developing protection against exposure to corruption risks and applying controls to mitigate them is a managerial task and responsibility that goes beyond the regularity of organisational operations and day-to-day performance. Operating with integrity is a tool for organisational action against corruption, a demonstration of honesty. The existence of integrity-based operations is particularly important for public and state-owned companies, which play a key role in society and the economy. These entities are exposed to greater vulnerability and corruption risks due to the public assets they hold, the public money they use or need to manage, and the way they operate in the provision of public services. There are significant differences in the level of integrity controls in place between companies, and these differences are largely due to differences in the attitude of company management.



The SAO assessed the integrity of majority state-owned companies in 356 companies in 2021. Of the auditees, 148 companies were subject to Government Decree 339/2019 (23 December) on the internal control system of public companies (Hungarian abbreviation Gbkr.) and 44 companies were subject to Government Decree 370/2011 (31 December) on the internal control system and internal audit of budgetary bodies (Hungarian abbreviation Bkr.). In addition, 164 companies were audited that were not covered by any of the above-mentioned government decrees. The audit was performed by the SAO on a monitoring basis, which involved a real-time assessment of the integrity-based operation of majority state-owned companies in key areas, focusing on the relevant documents of the current situation, and formulating recommendations for the future. The audit focused on the conscious operation of integrity, the definition of values ensuring the integrity of the organisational culture, and the establishment of an integrity management and integrity risk management system, and its extension to risky processes and areas. The aim of establishing regulations and records is not only to ensure compliance with legal provisions, but also to create the conditions for regular and fraud-free management through the regularity of companies, thus enforcing the principles of transparency and accountability as provided for in the Fundamental Law. The basic precondition for accountability is that the legal provisions and the internal regulations of business organisations provide a framework for responsible management and a clear definition of responsibility for management.

As a first step, for the audited companies, the SAO defined risk criteria for the documents provided for the audit for the year 2020, followed by an assessment of errors for all auditees. The audit reviewed the material areas of the companies' operations and management that pose a material risk to their integrity.

As a second step, the SAO, in the context of its advisory role, sent a warning letter to the heads of the organisations concerned during the audit to encourage them to take action to correct the irregularities identified during the audit and to initiate positive changes. The SAO provided an opportunity to address the errors and weaknesses identified by the audit in the warning with a view to future action. The vast majority of managers involved in the warning demonstrated responsible management behaviour by considering it and taking action to correct and eliminate the errors in the regulations. The combined effect of the data provided and the actions taken in response to the calls for attention has led to a significant improvement in the overall integrity of the institutions audited.

The audit has contributed to ensuring that state-owned enterprises develop their regulatory framework for management in accordance with the legal requirements. By identifying risks, the audit supported these entities in achieving integrity-based, transparent and accountable use of public funds. The measures taken are closely linked to the commitment of the companies' management to accountability and transparency and the need to reduce the risk of corruption, which will contribute to improving the public finance situation.

## II.1.4. Knowledge Transfer and Knowledge Exchange for sharing good practices

### Why is integrity important?

Preserving integrity and preventing corruption has become even more important during the pandemic. The activities of public sector organisations are designed to serve the public interest. And if the resources of the organisation are not used in the public interest, the integrity of the organisation is compromised: the most profound content of integrity is the authentic service of the public good. The higher the integrity of an organisation, the more resilient it is to corruption threats. Integrity is also a core ethical value of the INTOSAI ethical principles, ISSAI 130, and is a benchmark value for all public sector organisations. The consolidation of a culture of integrity and the related sharing of knowledge, both nationally and internationally, has been one of the SAO's key missions since 2011.

### State Audit Office of Hungary: A knowledge-sharing centre of integrity

The Hungarian SAO has become an internationally recognised actor in consolidating the integrity approach and building integrity management systems, as the dissemination of the integrity approach has been an important mission of the SAO for many years, including in the field of international knowledge sharing. Through almost a decade of regular international integrity knowledge sharing, the SAO has developed into a knowledge sharing centre in the world of international audit offices. And in 2021, it has made its integrity training courses even more widely available to managers of domestic public institutions.

The international recognition of the SAO's integrity initiatives is reflected in the fact that it has been invited to participate in the INTOSAI Working Group, which coordinates the implementation of the INTOSAI-UN Cooperation Agreement on the fight against corruption. In this context, the President of the SAO participated in a VIP round table discussion on the future of the fight against corruption, jointly organised by INTOSAI and the UN in December 2021.

### International knowledge transfer: From the Integrity Seminar to the Integrity e-Course

The aim of the International Integrity Seminar is to develop a culture of integrity-based public administration and transparent governance in the countries concerned through the sharing of best national and international practices. In 2021, the State Audit Office of Hungary decided, despite the pandemic, not to abandon the International Integrity Seminar, which has achieved significant results since 2013, but to take it to a higher level. As such an event could only take place online, this provided the opportunity to develop the curriculum that the SAO had been developing over the years into an e-learning tool. The SAO has created a platform which, on the one hand, has made it possible to offer a full online course; also ensured that participants could meet the speakers in real time, interactive workshops. With the e-learning material for the 2021 Seminar, the SAO has laid the groundwork for the future even wider use of this online learning material in the

The e-learning material covers the following topics



international audit office space. The 8th edition of the International Integrity Seminar and e-Course 2021 was attended by some 90 audit offices from nearly 40 countries.

### Knowledge sharing and advice for auditees in Hungary

The SAO, building on the experience of systemic evaluations of municipalities, and taking advantage of the opportunities offered by the online space during the pandemic, launched an online training course for municipal notaries in 2021, attended by more than 600 municipality notaries. In addition, the SAO has launched online training for more than 500 managers of auditees. Given that the development of protection against exposure to corruption risks and the application of controls is a managerial task and responsibility, it is crucial to ensure good managerial behaviour. The SAO provides advice to improve the public finance situation already in the process of the audit in several cases and also supports responsible managers with self-tests.

### II.1.5. International cooperation to prevent corruption

The use of artificial intelligence to prevent corruption and the reliability of corruption measurement were also highlighted at the 2021 International Integrity Seminar organised by the State Audit Office of Hungary.

The participants of the seminar were introduced through an online course to the corruption prevention approach that is based on strengthening an integrity-based organisational culture. Workshops were held to discuss the solutions to the problems uploaded by

the participants. The group work was structured around specific case studies, integrity incidents, ethical dilemmas, and a simulation game, in which the results of the 'integrity dashboard' were interpreted from the role of the head of a specific public institution.

The participants of the Integrity and Ethical Dilemmas workshop experienced it through the processing of different decision situations, including those concerning the acceptance of gifts or the disclosure of insider information. In many cases, achieving integrity is not easy, as ethical decision-making situations often involve a conflict of equal values.

In a workshop on reliable measurement as a prerequisite for anti-corruption action, participants discussed the limitations of international corruption measurement rankings and the basic conditions for scientifically reliable measurement. In a simulation game, participants formulated questions, the pattern and data collection methods of reliable measurement in specific corruption-prone areas.

Corruption risks in the health sector: an important message of COVID-19 is that corruption is not the same as corruption risks and that the risk of corruption must be distinguished from the risk of market imbalances disrupting the normal functioning of the economy. In this context, the workshop participants discussed the consequences of market imbalances, including the distorting effects of the pandemic on the competitive market.

The seminar entitled Technology and Corruption Prevention showed that artificial intelligence is not only a threat or an opportunity for audit offices but also a new challenge: SAs must audit algorithms, thus strengthening society's trust in these new technologies. Information technology can eliminate the human factor from the decision-making process, thus eliminating the risk of corruption: Technology is programmed to be 'ethical'. In Hungary today, such solutions are already eliminating the risk of corruption in the imposition of speeding fines or in the university admission process. However, this solution has its limitations: it can only deal with problems for which it has been pre-programmed.

## IV.1. Experience in the operation of the internal control system of the State Audit Office of Hungary

Each year, the SAO conducts an assessment and evaluation of the operation and status of its internal control system, during which it prepares a report on the status of the internal control system at the organisational level, based on the methodology already developed, by aggregating and evaluating the partial declarations of the heads of units. The assessment will also pay particular attention to the assessment methodology of the INTOSAI Performance Measurement Framework for Supreme Audit Institutions (SAI PMF) and to the general principles of the ISSAI 110 standard.

Pursuant to Section 29(1) of the SAO Instruction of the President of the State Audit Office of Hungary on the Rules of Organisation and Operation (ROO) of the State Audit Office of Hungary 3/2021 (13 August), the SAO "operates an internal control system in accordance with the requirements of regularity, economy, efficiency and effectiveness, and subject to the principles of risk management and efficient management of resources."

The internal control system is an integral instrument of organisational management, a set of methods, procedures and tools, the effective operation and development of which is essential for the achievement of the objectives of management and, through it, of the organisation, as well as for the prevention, detection and correction of events that hinder this.

The functioning of the internal control system of the SAO in 2021 was at a similarly high level as in previous years. The internal control system established and operated provides reasonable assurance that the institution conducts its activities efficiently, effectively and in compliance with the law and legislation, paying particular attention to meeting the challenges and opportunities of digitalisation, or to implement effective responses to the circumstances caused by a health emergency.

The SAO, as the supreme audit institution, continuously assesses and reports on its activities and performance in all areas, using performance indicators to measure its results. The individual assessment of the five pillars of the internal control system, taking into account the above aspects, is as follows.

a) The **control environment** continued to focus on digitalisation and the pandemic in 2021, as in the previous year. In 2021, the SAO continued to adapt its internal control environment to the emerging challenges, taking into account the opportunities to further develop its digital operations. Leading the way among public sector organisations, and with health as a priority, the SAO successfully made the transition to a digital environment in good time, in the early stages of the pandemic, and replaced paper-based business processes with digitised document flows. The regulatory foundations for all this were laid in 2020, and in 2021 the established processes were fine-tuned.

b) In the context of the operation of the **integrated risk management system**, risks have been assessed, evaluated, managed and the assessment has been reviewed by the

departments. Compared to the previous year, both the number of risks identified and the number of risks per organisational unit have decreased at organisational level, by approximately 25%. Based on the definition of risk levels by unit, the proportion of high risks within the total risks is minimal, indicating that the SAO's integrated risk management system is balanced, well controlled and continuously monitored. There are no unmanaged risks remaining in 2021.

c) Responsibilities for **control activities** are properly defined in the internal management tools and job descriptions. The "four eyes principle" was applied to both financial and real processes.

The control environment for financial, accounting and bookkeeping activities was in place and the control activities were adequately managed.

d) The Management Information System (MIS) is the basis for the operation of the **information and communication system**. The MIS ensures the flow of information throughout the organisation. Managers receive the information they need in a structured way and with a defined frequency. The information is analysed to provide an overview of internal organisational processes in accordance with the principles of change management and to enable the necessary decisions to be taken. The information and communication system involves the collection, analysis and evaluation of the factors determining organisational performance.

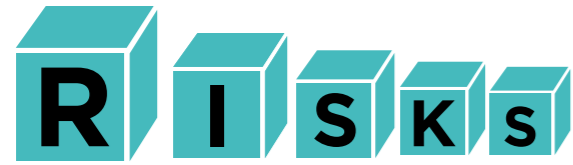
Significant changes in the information and communication system have been brought about by the continuing rise of digitalisation. Thus, electronic signatures are increasingly important for both incoming and outgoing documents.

e) As part of the **monitoring system**, the SAO has operated a monitoring system to follow up the implementation of its activities and conducts continuous and ad hoc monitoring of operational activities. The monitoring of the implementation of tasks in the administrative area is conducted in a comprehensive manner, supported by an electronic management decision recording system.

The President of the SAO ensured the establishment and proper functioning of internal control independent of operational activities and provided the necessary resources and rights for the functioning of internal control. The place of internal audit in the organisational hierarchy is regulated. It is performed by an internal auditor under the direct authority of the President of the SAO and reporting to the President of the Audit Office..



## IV.4. Operation of the risk management system



The functioning of the internal control system under the COSO (Committee of Sponsoring Organizations of the Treadway Commission) model is based on a well-designed and operated risk management

system. In several cases, the SAO's audits have identified a lack of design and operation of the risk management system, which has a negative impact on the overall internal control system of the organisation. Therefore, the SAO's risk management pillar is now presented in more detail in this report as a good practice for public sector organisations.

The risk management system of the SAO is based on three pillars for risk assessment, which include:

- risks identified by internal organisational units
- risks identified by audit/analysis projects
- individual risks (case-by-case)

recording, measuring, managing and back-testing. The objective of risk management is to reduce the identified emerging risks to an acceptable level / tolerance level, thus ensuring the efficient, economic and effective achievement of organisational objectives and the improvement of the internal control system. Each risk should have a management approach and a person responsible for implementing the measures.

*Risk management tasks*



In each case, the risks identified are classified by their source of risk and by major risk categories within that source, and their potential/expected impact is analysed in the light of the organisational objectives. In order to quantify the risk, the probability of the risk occurring is determined, based on the magnitude of the adverse impact if it were to occur,

and the impact of the risk. The management of risks is channelled into one organisational unit to ensure a consistent and transparent management.

The departments and the project managers for control and analysis are responsible for managing the risks identified and reducing them to an acceptable level. Individual risks also require individual management in each case. Within individual risks, the SAO places particular emphasis on the management of high-level and systemic risks.

## IV.5. Relationship between resilience and continuous monitoring

The State Audit Office of Hungary has been committed to quality management for many years. The quality management and performance measurement of SAIs go hand in hand, with the quality management system validating performance and guaranteeing error-free operation. The quality-driven processes of the SAO determine the quality of the results of the work of the SAIs, ensure that the irregularities detected during audits and the findings are based on objective facts and are correct.

It is worth mentioning that the general auditing principles developed by the SAO in accordance with the INTOSAI Framework of Professional Pronouncements (IFPP), which are in line with international standards, include, inter alia, ethical requirements and a quality management framework, the basic elements and types of the audits by the SAIs, and the principles of reliability and assurance. These principles are integrated into the organisation to ensure transparent and accountable operations. We aim to support public sector organisations in implementing these values.

In order to express its commitment to quality work, the SAO operates its processes according to a quality management system designed to improve the operational efficiency of the organisation, in compliance with the international standard for quality management of SAIs, ISSAI 140, and in line with the internal regulatory environment. The SAO applies the principles of quality management in all its activities, as set out in the document 'Principles of quality management', which is publicly available on the website of the SAO under the menu item 'Audit - Professional Rules'.

Monitoring activities are of particular importance in the performance of quality management tasks. Accordingly, the SAO monitors the regularity of its audit and analysis processes and its non-audit and analysis projects, as well as the functioning of its internal control system and processes.

For many years, the development of the quality management system, including monitoring activities, has focused on increasing efficiency and exploiting the potential of digitalisation. The SAO has set itself the objective of creating a digital audit environment, which has required technical improvements in audit, management and monitoring activities throughout the organisation. The SAO has in recent years created the conditions for the

development of a digital audit environment through the use of its Audit Process Support and Monitoring Software. The software provides IT support for all the audit processes and analytical activities of the SAO, project implementation and the monitoring thereof, so that the progress of the process and the implementation of tasks can be monitored in real time.

*Focuses of continuous monitoring*



Continuous monitoring during the implementation of tasks, post-completion monitoring, evaluation and analysis of the results achieved will enable the experience gained to be incorporated into the planning of the next period and the implementation of new tasks. The experience gained from monitoring activities will also ensure that the SAO's quality management system is reviewed annually to further develop quality-driven operations and provide a basis for agile changes within the organisation.

The organisation of the SAO is a dynamic structure, in which the external environmental changes caused by the COVID-19 pandemic, the changes in the performance of tasks, or the internal impulses mentioned above, which have been with us for the past year, are constantly generating change. While the internal structure is essentially stable, encompassing the institutional strategy and the core values set out therein, new operational elements are constantly emerging and new linkages are being established. All this induces agile and responsive functioning in the processes of the SAO.

In doing so, the SAO strives to maintain the most important institutional values of transparency, accountability, independence and objective fact-finding, quality-driven operations and ethics, while at the same time striving for continuous organisational renewal as an essential value of adapting to change. Continuous monitoring contributes to ensuring organisational governance based on up-to-date, relevant and reliable information, and to managing the impact of internal processes, external factors affecting the organisation's governance, activities and management, as well as to making management decisions.

SUPPORT  
INDEPENDENCE  
LEGALITY VISUALISATION

REGULARITY

ACCOUNTABILITY

SUSTAINABILITY

PERFORMANCE

CAPACITY GROWTH

MONITORING

KNOWLEDGE SHARING

INTEGRITY TRANSPARENCY

VALUE CREATION

DIGITALISATION EVALUATION

RESILIENCE

PERFORMANCE  
ANALYSIS





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