

Summary

of the Report on the Activities of the State Audit Office in 2003 (0403)

The State Audit Office (SAO) gives an account of its activities performed in the previous year to the Parliament every spring. It is also characteristic of the international practice that Supreme Audit Institutions (SAIs) give an overview on their activities – without the intention of completeness – in the form of annual reports. In case of the majority of foreign partner institutions, the annual report provides full-scope and in-depth information on the main points, experiences and utilisation of the audit activity. The report usually also presents the most important findings of the audits performed. (These may be familiarised – in an appendix of 140 pages – in case of the Hungarian SAO as well.) In the majority of countries, besides this report, in general only a few reports with the findings of especially important audits are put on the agenda of the parliamentary committees, or possibly – almost as an exception – on that of the Parliament's plenary session.

In Hungary, due to the State Audit Office's position in the state organisation, and as a consequence of its embeddedness in the economic and social structures, the situation is quite different.

Beyond the annual report the SAI as the financial and economic control organisation of the National Assembly has submitted in the recent years annually about 50 reports (56 in year 2003) to the National Assembly. In the past year, - together with a few reports released by the SAO before the calendar year 2003 – 25 reports were on the agenda of the committees (or special committees) either as separate agenda item or as being related to certain agenda items. It should be noted, that the report on the audit of the final accounts ("Appropriation Accounts"), and the SAO's evaluation on the Finance Bill were discussed by 23 committees. In addition, 9 standing committees and 1 fact-finding committee discussed audit reports of the SAO in the frame of a total of 34 committee meeting agenda items.

The report on the activity of the SAO in 2002, the report on the audit of the final accounts, the evaluation on the Finance Bill were on the agenda of plenary sessions. The President of the SAO delivered a speech at plenary sessions on four occasions: at the discussions on the SAO's annual report, after the exposés presented on the final accounts, respectively on the Finance Bill, and another time upon the question of an MP. Approximately at three-quarters of the total plenary session days the MPs referred to the content of the SAO's audit reports in their comments.

2.

By providing a picture on the SAO's wide-ranging and multiple national and international relations and professional commitments, the 2003 SAO annual report makes perceptible the activity of the State Audit Office, which is unique even in international comparison..

Pursuant to its Strategy, the contribution to the promotion of the national audit culture is an important task of the State Audit Office. The co-operation developed with the economic higher education and research institutions, moreover the engagement in different professional and scientific associations also serve this purpose. Establishing such relationships is also characteristic of foreign partner institutions. However, in comparison with the SAO it is less characteristic of them to contribute to the modernisation of the public internal financial control system, to the elaboration of the related legal provisions, to participate in the activities of state committee on system development and in that of its sub-committees. In addition, the SAO takes part in the work of the state committees on accounting, information technology, further development of the local governments' operation. The above activities and engagements mean a particular utilisation of SAI-activities, and at the same they are important and practical from the aspect of modernising the public finances.

The SAO has been continuously participating in the activities of the Audit Working Group of the Interdepartmental Committee on European Integration (EITB) in order to ensure the establishment of an Hungarian state administration internal financial control model, which is also acceptable for the European Commission. The aim of this commitment was to provide professional support for the elaboration of the government's internal control strategy, and subsequently for the establishment of the related legal background.

The fact that the SAO - in line with its constitutional role and with keeping its legal obligations and rights in view - endeavours also to directly advance in some reasonable cases the work of the government and thus, to serve the interest of citizens, points beyond the audit activities and their direct utilisation by the Parliament in its literal sense. In terms of the aforementioned, upon the invitation of the Prime Minister of the Republic of Hungary, the SAO – based on its audit experiences and making use of its professional advisor role – presented its opinion and recommendations aiming to support the Government's austerity measures. It elaborated this document essentially on the basis of the experiences presented in the 2003 annual report. The recommendations contribute not only to particular austerity measures of different duration but in a wider sense also to the modernisation and reform of the public sector and public finances, and as such, they are realised more than the recommendations included in SAO's individual audit reports.

The extensive and even broadening international relations – out of which several remarkable issues are introduced in the annual report – serve the enhancement of the quality of professional activities and capabilities. One of the SAO's biggest challenges will be to organise and host the XVIII INTOSAI Congress in October 10-16, 2004. The likely success of it will have a positive impact on the image of Hungary. Important decisions concerning the future of the international organisation may be made on the Congress, which will be attended by about 600-800 foreign and Hungarian guests. Among them there will be 160-180 officials of minister rank.

3.

In accordance with the practice evolved, the report on the annual activities of the SAO presents the focuses of the audit work. The report indicates that nearly two thirds of the audit capacity in the year 2003 were used on audits, the performance of which is prescribed by law. Such compulsory audit tasks must be performed yearly, biennially or recurrently. The selection of audit themes in the President's authority for the remaining one third of audit capacity means to choose between "possible audit themes of different values". This choice was made in line with the main objectives of the strategy also in the year 2003. Accordingly, the SAO concentrates its audit capacity on public tasks requiring the use of a high amount of budgetary funds and bearing significant risks, on critical issues of the public sector and national economy competitiveness, moreover on areas having an impact on the living standards of the population.

The Respected Reader may learn the experiences of the audits in the following order: the sub-systems of public financial management; state property; organisations operating outside the area of public finance, financial management of political parties; and audit experiences on some high-priority areas. At the last category the topical problems of public health care and social provision systems, education, preparations for EU accession, and public road development are highlighted in the report, which summarises in a separate part the conclusions and findings of the audits completed in the year 2003.

The latter summaries set out from the fact that the central budget tensions, which are increasing sometimes and then get settled, are frequently – like now – going together with the national economy's external debt. The elimination of this so-called twin-deficit (central budget deficit and external debt) requires and presumes, amongst others, the decrease of the budget's need for funds. Primarily, this is the point, where the decisive national economy and financial processes meet the SAO's statutory audit powers, and where the demand arises that the SAO should explore possibilities to improve budgetary management, and thereby to control and relatively reduce the budget's need for funds.

As pointed out by the report, this is far from being an aim for itself, but rather a prerequisite for restraining the demand for foreign resources, and a push for the modernisation of operation and management as well. It may open the way for the further decrease of the budget's centralising and redistributing role and for the possibility that external resources increasingly support the private sector's innovation-oriented development with a view to enhance national economy's competitiveness.

In the followings, the report indicates that pursuant to the SAO's audits, the shift necessary for an improvement in the budget management practice assumes, besides others, the termination of the "softening" of budget regulations.

Although it is not stated explicitly, but is still expressed in the report that the softening of the budgetary discipline, and the instability of regulations is contrary to the requirements of transparency and accountability.

The SAO has previously often emphasised and underlines in the present as well in its reports the necessity of the comprehensive renewal of the Act on Public Finances.

In view of the persons compiling the annual report special attention should be paid to the fact that the bulk of the budgetary risk is shifting increasingly to the substantial (not “pure compliance”) deficiencies, which are becoming more and more frequent in the area of “chapter-managed appropriations” (i.e. public resources directly under the ministries, constitutional organs, etc.) and at financial solutions being outside (and therefore not subject to the regulation for) the central budget area.

Without an overall and harmonised modernisation and renewal of public finances and big public provision systems, the different financial tensions and concerns about financing – that often go together with anomalies of the real economy – may be managed only in the short run at the most, but can not be solved without eliminating the root causes.

In this regard the audits pointed out to several shortcomings in the organisation, functioning and management of the public health care system. The shortcomings could be compensated or terminated by more up-to-date management and organisation methods, by employment of internal reserves, and by speeding up the development of quality assurance. These are necessary but not sufficient steps, since a solution should be found to compensate the lack of financial resources for operation and development. When elaborating options for the reform of public health care system in Hungary, attention should be placed on the fact that in developed countries, despite the reforms, public financing is dominant. The state has not or has only slightly withdrawn in the area of funding. This refers to the fact – as emphasised by the report – that the responsibility for health care provision cannot be shared with the private sector.

The audits of education and training structures highlight that these areas - as being tasks for the comprehensive human resources development - should be managed, in line with the tendencies prevailing in the EU member states, with an economic policy approach, and not or not primarily with a sectoral approach. The main development trends of the education system, and the possibilities for funding as well should be elaborated with a complex approach. As the audits have already indicated, this approach, which differs from the existing one, is necessary not only because of the reproduction of financial and operational tensions, but also because educational and training systems are not merely competitiveness factors. They should be also taken into account as factors forming the situation of employment, labour market, equal chances in the society. In addition, they have a part in meeting the regional requirements set up by the adoption of EU-requirements.

The annual report also indicates that there is a growing number of contact points between the public and private sector. In frame of the new system of public-private partnership, the public funds' way of movement will change. The report highlights that the management of public funds getting out of the public finances area, and the funding arrangements are not adjusted properly to the nature of public tasks and to the schedule of task performance. In frame of PPP projects the Ministries very often pay to the private entrepreneurs considerably more resources than the amount proportionate to their task performance till the payment. And since the technical and financial controls for the implementation of PPP projects are still in the development phase, the expectations of cost efficiency have not been enforced yet in former PPP cases. Rather hidden commitments of the state were realised than entrepreneurial (private sector) capital employed.

The report argues for an increase in the efficiency of the internal financial control system. It illustrates with examples that the system does not yet work appropriately. In this regard, the SAO considers as reasonable that the revision of the whole internal control system be made. Namely, both the Act on Public Finances and the Government Decree 193/2003 (XI.26.) are in line with the SAO's view, that audit units, organisations of the Ministries should play an important role in the realisation of the system-oriented financial audits. The mentioned government decree on internal control postponed in a peculiar way until 2010 the deadline for ensuring the auditor staff required for the "certifying" financial audit of the final accounts. Therefore, it becomes practically impossible – as stated in the SAO report –, that a full-scope and gap-free audit, which complies also with the EU-requirements, be realised with the SAO's original schedule and according to its intention on the final accounts, as it should have been the case pursuant to the Parliamentary Resolutions adopted on this issue.

4.

The content of and reason for the amendment motion on the Act on the SAO may be learned from the report. The Parliament, under its Resolution 35/2003 (IV. 9.), held it necessary to amend the Act XXXVIII of 1989 on the State Audit Office in the interest of strengthening the independence of the organisation, and to eliminate the obsolete and unrealisable rules.

The amendment eliminates the obsolete and unnecessary provisions in the Act on the SAO, rectifies the SAO's role in the system of national audit system, modernises its internal organisational structure, incorporates in the Act the missing safeguards on data secrecy, and re-regulates the system of relations between the SAO and the National Bank of Hungary.

5.

Besides the afore-mentioned, the Respected Reader may also find a summary on the main characteristics of the quality assurance of audits, the methodological

work, the information technology system of the institution, and its operation and financial management.

It may be worth of interest that the SAO employs highly qualified experts. 120 certified accountants, 97 chartered accountants and about further 100 auditors with other type of financial-accountancy qualifications are working in the State Audit Office. 174 employees have English or French or German language exams, which are of utmost importance from the aspect of EU-relationships. On 31 December 2003, the number of persons employed by the SAO was 559. With respect to the increase in the SAO's duties, tasks the staff increased - with the Parliament's approval - by 35 persons in comparison with the previous year. The average age of the staff is 47.6 years, which refers to the effectiveness of the rejuvenation set as a mid-term objective of the human resources policy (In 1999, the average age was 50 years).

The SAO places special importance on the publicity of its activities. The most popular information source – showing a continuous and dynamic increase– is the SAO's homepage, with around 45 thousand visitors per year, where the complete text of reports, information concerning the organisation, and the English summaries of the reports are also available.

The report on the activity of the State Audit Office in 2003 is made up of three main structural units. The first unit provides information on the audit activities of the institution, the development in the quality of the audit work, and the operation and financial management of the SAO. The second unit (annexes) gives an overview on the main characteristics of the audit reports made in 2003, on the discussion of the reports by the Parliamentary committees, and the utilisation of the recommendations. The recommendations along with the responses given for them by the responsible officials of the central budget chapters expand to 40 pages). The third part (appendix) presents (in 140 pages) the major findings of each audit, the points of the individual reports. The Hungarian version of the report may be read on the SAO homepage (www.asz.hu).