



---

STATE AUDIT  
OFFICE OF HUNGARY

The Audit Plan of the State Audit Office of Hungary  
for the Second Half of 2015

TV-0020-001/2015.

June 2015

Approved by

László Domokos  
President



## *Introduction*

The State Audit Office of Hungary (SAO) carries out its audit activities on the basis of its audit plan approved by its President. The SAO publishes its audit plan and submits it to the National Assembly in half-year planning cycles.

According to its Strategy adopted by the National Assembly, the State Audit Office of Hungary (SAO) considers as its mission to promote the transparent and sound management of public finances with its value creating audits performed on a solid professional basis, and thus to contribute to '*good governance*'. Accordingly, the whole audit process, from audit planning through the implementation thereof, to the formulation of findings and recommendations and the utilisation thereof, is aimed at supporting the regular, effective, efficient, economic, accountable and transparent utilisation of public funds, the development of the public finance system and at ensuring that national assets are as safe as possible.

In its Strategy the SAO set it as a goal to elaborate and further develop methodology documents in alignment with audit targets and tasks and to maintain the continuous, quality-oriented methodological development. Part of the audits commencing from the second half of 2015 will be carried out according to the SAO's renewed fundamental auditing principles. When renewing these professional fundamental principles, the SAO considered the fundamental auditing principles developed by INTOSAI, the International Organisation of Supreme Audit Institutions, renewed in 2013, as guiding principles, which serve as the common professional foundations for public sector auditing worldwide.

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

With the introduction of *fundamental principles of compliance auditing* the SAO provides a broader auditing background the field of the regularity of the utilisation of public funds, while with the introduction of the *fundamental principles of performance auditing* the SAO can contribute more efficiently to the application of the principles of effectiveness, efficiency, economy and accountability in the management of public funds and national assets.

During the definition of audit topics and the selection of audit sites related to each audit topic the SAO strives for the effective, efficient and economic utilisation of its resources, therefore planning is preceded by the continuous processing of the information necessary for the selection of topics and analysis. As a result of the new information emerged during planning the final audit objectives may be different from the content of the audit plan.

During the preparation of the audit plan we took into account the audit tasks commenced in the previous period and still in progress, and those to be carried out in compliance with legal obligations in this period. In the course of the selection of audit topics we lay emphasis on the audit of areas and organisations whose activities have an influence on the development of the public debt indicator, the general government deficit and the competitiveness of the country.

Similarly to the previous years, the audit on the execution of the central budget of Hungary is among our priority tasks also in 2015. For the efficient utilisation of resources we also continue our audits based on the audit on the execution of the budget. Such method was used for the audit of the Hungarian State Treasury, specific tax collection processes, the activities

related to the exercise of proprietary rights over state property, specific central institutions and the Hungarian Scientific Research Fund (OTKA). With its latter audit the SAO continues the evaluation of the regularity and transparency of the utilisation of public funds spent on research and development. The audit of public funds spent on scientific research may shed light also on the preparedness of audited organisations for receiving EU funds.

The activities of the Hungarian State Treasury concern a wide range of citizens, the legality of its activities have an impact on the image of the public administration in the short run, while it increases trust in the state and may encourage law-abiding conduct in the long run. As the 'auditor of auditors' the SAO continues the audit of the public administration activities of the Treasury and its centralised payroll calculation system.

Tax revenues have an important role in general government revenues, thus with its audits on the task performance related to specific tax collection activities in 2015 the SAO continues its audits commenced in 2014.

Among the audits to be carried out according to law the SAO audits also in 2015 the activities relating to the exercise of proprietary rights over state property, the accounting for the financial resources allotted to the campaigns of mid-term parliamentary elections, the local government decree on the division of revenues due to and shared by the Budapest Municipality and the Budapest district local governments in 2015, as well as the financial management of political parties and party foundations receiving budget subsidies.

It is our strategic objective to focus our resources available after the fulfilment of our regular audit obligations stipulated by law on audits with a systemic, holistic approach in order to ensure the transparency of the complex processes of public finances. We lay emphasis on audits based on and related to one another, as with the examination of a key field of public finances from different aspects the SAO can contribute to good governance in the framework of its advisory activity.

With the development of IT, issues related to the secure management of data records, the high-level protection of data and the reduction of arising risks come to the fore. In this topic the SAO is participating in an international parallel audit within the EUROSAI IT Working Group. The objective of the audit is to prepare a comprehensive evaluation of the current situation of data protection for the National Assembly and citizens, as well as to call attention to the areas to be improved.

In the second half of 2015 the SAO audits the contribution of tourism development measures to the objectives set in the framework of a cooperative audit with the SAIs of Croatia and the Former Yugoslav Republic of Macedonia.

According to our audit experience, the financial management and the utilisation of public funds of several institutions proved to be of high risk. With our serial audits we can carry out efficient audits in specific topics covering the different sub-areas of public finances and the organisation falling outside them. In our audit plan for the second half of 2015 the SAO is planning to carry out several serial audits. Such audits will cover the institutions of the central subsystem, specific organisations receiving general government funding, state-owned business organisations, as well as local governments with special regard to the set-up of their internal control system and specific control activities, as well as business associations in majority ownership of local governments. Furthermore, we are planning to carry out serial audits on public bodies and the financial management of town museums with county right.

We conduct audits in the same topic and covering the same organisations, applying the principles of rolling planning and on the basis of updated audit programmes.

Serial audits might be supplemented by modular programme parts related to the specific topics but covering special focus areas. We audit those elements of the financial management of business associations owned by the state or in a majority ownership of local governments that have an impact on the deficit of the government sector or on public debt based on such modular programme parts. Such modular programme parts provide a basis for our audits on the fulfilment of requirements of effectiveness, efficiency and economy in the financial management of the institutions of the central subsystem and the management declaration on their application. The audit on the internal control system of certain local governments is supplemented by a separate module covering the evaluation of whether the investment decisions of the local government and the implementation and accounting thereof was in compliance with legal regulations and whether the control system set up supported regular task performance. We also audit in a separate module the establishment and operation of the performance assessment systems of managers at business associations owned by the state or in a majority ownership of local governments, as well as at the institutions of the central subsystem.

In the second half of 2015 the SAO audits the debt clearance procedures of local governments and the debt management system of the general government as separate topics, thus it lays special emphasis on the control of factors having an impact on public debt. Furthermore, the SAO audits the appropriateness of the operation of the IT system of the general government and the statistical service. The possible effect of the anomalies of data provision and data management and problems of data reliability arising in IT and statistical systems is significant on the appropriate financial management and the authenticity of data presented on the general government and the Hungarian economy.

The revenues from quota sales and the utilisation thereof has a significant social benefit because it contributes to encouraging local residents and communities to make investments of energy efficiency, building energetics and energy saving, thus to the accomplishment of objectives of climate protection. Therefore, the SAO plans to audit the management of carbon credits in the second half of 2015.

According to the Act on SAO, the State Audit Office of Hungary can audit the implementation of the action plan in the framework of a follow-up audit, which contributes to the fulfilment of the objective that the SAO achieves real change in terms of the order of public finances. The scheduled implementation of follow-up audits demonstrates that the era of audits without consequences has permanently come to an end. The SAO plans to carry out several follow-up audits also in the second half of 2015.

In order to promote the efficient and disciplined public financial management the SAO prepared voluntary self-tests to support the regularity of the operation of organisations and institutions managing public funds. By completing the self-tests the central budgetary institutions, local governments, minority local governments and ecclesiastical institutions can assess their own activities and they can get prepared for a possible SAO audit.

In harmony with the strategic objectives of SAO, the institution further facilitates the creation of the integrity based, transparent and accountable utilisation of public funds. The integrity culture contributes to the immunity of the organisations against corruption and the prevention thereof becomes also better controlled. During our audits we evaluate the application of the

integrity approach in financial management processes on the basis of the organisations' data provision in order to reduce the auditees' exposure to corruption.

A fundamental requirement about SAO audits is the high-level social utilisation, which means that the SAO shall carry out audits in topics and fields where it is really necessary. A strategic objective of the SAO is to participate in the identification and application of the efficient and effective means of fight against corruption risks and corruption and in the diffusion of their use as well as in formulating the integrity based administrative culture. It pays special attention to the currently arising topics considered to be of high risk on the basis of external notifications (e.g. National Assembly, media, notifications of public interest), which are continuously included in its audits.

As a socially responsible institution, the State Audit Office of Hungary is subordinated only to law and the National Assembly according to its independence stipulated by the Fundamental Law of Hungary. It performs its activities according to its public audit plan and reports in a stable and transparent manner and publishes its audit findings in its reports.

We are convinced that while keeping our professional commitment we support the creation of order in public finances and we contribute to the operation of a well-governed state.

# LIST OF AUDIT SUBJECTS

(table of contents, based on the serial number of the audit subjects)

- 1 *Forestries* – Regularity audit on the asset management activities of state-owned forestry companies (ongoing task according to the audit plan for the first half of 2015)
- 2 Regularity audit on the financial management of national minority local governments (ongoing task according to the audit plan for the first half of 2015)
- 3 *Compliance audit on the Hungarian State Treasury* – Audit on the public administration activities and the centralised payroll calculation system of the Hungarian State Treasury (ongoing task according to the audit plan for the first half of 2015)
- 4 Compliance audit on the Hungarian Scientific Research Fund (ongoing task according to the audit plan for the first half of 2015)
- 5 *Regularity audit on the public transport system of the capital city of Budapest* – Audit on the regularity of the institutional transformation of the public transport system of Budapest, the establishment and operation of the Centre for Budapest Transport (ongoing task according to the audit plan for the first half of 2015)
- 6 *Compliance audit on tax collection processes* – Audit on the regularity of the task performance related to specific tax collection activities (ongoing task according to the audit plan for the first half of 2015)
- 7 *Regularity audit on data protection* – Audit on the national framework of data protection and specific priority data records within an international cooperation (ongoing task according to the audit plan for the first half of 2015)
- 8 *Internal control system of local governments* – Compliance audit on the set-up and operation of the internal control system of local governments (fourth phase, ongoing task according to the audit plan for the first half of 2015)
- 9 *Financial management of minority local governments* – Regularity audit on the financial management framework of minority local governments, as well as the conditions of the operation of the local government set up and provided for by local governments (third phase, ongoing task according to the audit plan for the first half of 2015)
- 10 Compliance audit on the financial and asset management of local governments (second phase, ongoing task according to the audit plan for the first half of 2015)
- 11 *Internal control system of local governments* – Regularity audit on the set-up of the internal control system of local governments and the operation of specific control activities and internal audit (shortened programme, ongoing task according to the audit plan for the first half of 2015)
- 12 Compliance audit on the financial management of local governments (simplified financial module, ongoing task according to the audit plan for the first half of 2015)
- 13 *Business associations of local governments* – Compliance audit on the regularity of the financial management activities of business associations in a majority ownership of local governments related to their public task performance (second phase, ongoing task according to the audit plan for the first half of 2015)

- 14 Regularity audit on the asset preservation and financial management activities of business associations owned (partially) by the state (second phase, ongoing task according to the audit plan for the first half of 2015)
- 15 Regularity audit on the financial and asset management of specific institutions of the central subsystem (second phase, ongoing task according to the audit plan for the first half of 2015)
- 16 Audit of public bodies
- 17 Audit of town museums with county right
- 18 *Audit of non-governmental human service providers* – Compliance audit on the utilisation of the central budgetary subsidies received by the operators of social and public education institutions and bodies outside public finances, providing human services
- 19 Compliance audit on the operation of the IT system of the general government and the official statistical service
- 20 *Audit on the debt clearance procedures of local governments* – Compliance audit on the debt clearance procedures of local governments
- 21 Compliance audit on the regularity of the operation of the National Bank of Hungary
- 22 Performance audit on the system managing the debt of the central subsystem of public finances
- 23 *Audit on carbon credits* – Compliance audit on the management of carbon credits
- 24 Cooperative audit for the better utilisation of shared knowledge for competitiveness – revealing the good practices of graduate career management systems
- 25 Regularity audit on the financial and asset management of specific institutions of the central subsystem (third phase)
- 26 *Internal control system of local governments* – Compliance audit on the set-up and operation of the internal control system of local governments (fifth phase)
- 27 Follow-up audits
- 28 Coordinated audit on the efficiency of tourism development measures (parallel audit with the SAIs of Croatia and the Former Yugoslav Republic of Macedonia)

**AUDITS TO BE CARRIED OUT ANNUALLY, BIANNUALLY BY LAW AND  
AUDITS RELATED TO OTHER EVENTS**

- 29 *Execution of the 2014 budget of Hungary* – Compliance audit on the execution of the central budget of 2014 of Hungary (ongoing task according to the audit plan for the first half of 2015)
- 30 Regularity audit on the activities relating to the exercise of proprietary rights over state property (ongoing task according to the audit plan for the first half of 2015)
- 31 Regularity audit on the utilisation of funds spent on by-elections (ongoing task according to the audit plan for the first half of 2015)

- 32 *Regularity audit on funds allotted to campaigns* – the accounting for the financial resources allotted to the campaigns of mid-term parliamentary elections (ongoing task according to the audit plan for the first half of 2015)
- 33 Regularity audit on the legality of the financial management in 2013-2014 of parties receiving budget subsidies
- 33/1 Compliance audit on the legality of the financial management of the Hungarian Socialist Party in 2013-2014
- 33/2 Compliance audit on the legality of the financial management of the Party Jobbik, The Movement for a Better Hungary in 2013-2014
- 33/3 Compliance audit on the legality of the financial management of the party LMP (Politics Can be Different) in 2013-2014
- 33/4 Compliance audit on the legality of the financial management of the Christian Democratic People's Party in 2013-2014
- 33/5 Compliance audit on the legality of the financial management of the Together – Party for a New Era in 2013-2014
- 33/6 Compliance audit on the legality of the financial management of the Hungarian Liberal Party in 2013-2014
- 33/7 Compliance audit on the legality of the financial management of the Party 'Dialogue for Hungary' in 2013-2014
- 34 Compliance audit on the legality of the financial management of party foundations receiving budget subsidies in 2013-2014
- 34/1 Compliance audit on the legality of the financial management of Táncsics Mihály Foundation in 2013-2014
- 34/2 Compliance audit on the legality of the financial management of the Foundation for a Prospering Hungary in 2013-2014
- 34/3 Compliance audit on the legality of the financial management of the Ecopolis Foundation in 2013-2014
- 35 Review of the local government decree on revenues due to and shared by the Budapest Municipality and the Budapest district local governments in 2015