



SUMMARY

of the Audit on the Regularity of the Internal Control Systems and Internal Audits at the Central Budgetary Institutions Involved in the Audit on the Execution of the Budget of Hungary for the Year 2011 (1298)

Objectives and scope of the audit

During the audit we evaluated the regulatory background of the internal control systems and internal audit, and the practical application of the external and internal regulations at the central budgetary institutions involved in the audit on the execution of the budget of Hungary for the year 2011. The audit of the operation of internal control systems covered the subsidies financed from chapter-managed appropriations by tendering.

We focused on the relationship between opinions issued on the financial statements and the deficiencies of the internal control system, the connections between the operation of the internal control system and internal audit, as well as on the operation of the internal control system and internal audit of the constitutional chapters. The audited period covered the processes of the 2011 reporting year, and in case of internal audit, covered audits carried out in 2010.

Main findings

The establishment and the operation of the internal control systems of central budgetary institutions basically fulfilled their functions in 2011; on the other hand we identified factors at several areas of the system elements that may have a negative influence on the efficient and effective operations of the controls. The operation of internal controls was partly or fully adequate in 85%, and was inadequate in 15% of the 28 budgetary institutions and 11 chapter-managed appropriations audited. On the whole, the elements of the internal control systems were adequate in 70,9%.

We considered the operation of controls partly adequate if the result of the survey on the internal control system reached at least 70%, and fully adequate if the result reached at least 85%.

The control activity of the institutions, which means to take measures ensuring the regular operation of the institutions, basically functioned adequately. In the financial management the 'four eyes principle' and the segregation of duties prevailed. We found the biggest deficiency in the field of controls on public procurement, where inadequate support for the operation of the controls caused problems.

The element 'information and communication' of internal control, ensuring the fulfilment of the communication tasks related to the control activities, is the control component with the second highest compliance level, according to our assessment. The internal regulations determined the form of providing information, the employees received the information required for their work in time, and the regulations were available.

During the assessment of the components of the internal control system, the control environment reached the highest and monitoring reached the lowest compliance level. Control environment is determined basically by the organisational structure, internal regulations and human resource management, while monitoring involves the monitoring of the activities of budgetary institutions and the internal audit activities.

Risk management, which ensures the assessment of the factors that can endanger the regular and efficient performance of activities, is the component with the second lowest compliance level at the budgetary institutions, according to our assessment. One of the most frequent deficiencies is the absence of the assessment of fraud and corruption risks, and that the institutions did not determine the acceptable level of risk, the risk reaction and the response measures.

According to our assessment, the internal audit activities of the budgetary institutions were partly or fully adequate. The institutions, in the course of their audit activity, did not or did not sufficiently examine the establishment and operation of the internal control systems, the management of resources, especially asset management and the reliability of the financial statements and accounts. These factors had a negative influence on the assessment of the internal audit activities. Another deficiency was that internal auditors carried out audits other than financial regularity audits (systems-, performance- and IT audits) only on a case-by-case basis. The strengthening of internal control activities is desirable, as the compliance of internal control systems and the compliance of the internal audit show correlation. In those institutions where internal audit did not function adequately, deficiencies can be seen in internal controls.

We found that the controls at the field of subsidies financed from chapter-managed appropriations by tendering did not operate efficiently enough. The evaluation of tenders was not fully supported by IT systems, and despite the fact that most of the chapters had up-to-date registers of beneficiaries who were in delay with the settlement of accounts and with possible repayment obligations, no automatic notices were given to beneficiaries to fulfil their obligations.

As a conclusion, we can declare that as regards internal control systems, the main fields for development in the first place are the increasing of the level of risk management activities, the strengthening of the controls ensuring compliance with the provisions of the Act on Public Procurement (which was in effect until 31 December 2011), the more thorough and frequent audit of the accounts on subsidies financed from chapter-managed appropriations by tendering and the continuous updating of the internal regulations. In relation to these, more emphasis should be laid on the importance, the role and the professional competence of the internal audit activity. At the same time it has to be ensured that internal audit units are suitable for auditing the entire control system.

In order to increase the role of the controls, we made efforts following the completion of the on-site audit to give the opportunity for the institutions to make statements about completed or planned corrective measures to correct the deficiencies, control-failures detected in the course of our audit, serving the establishment and the strengthening of good practices as well. Our efforts were successful; the heads of organisations managing the chapters have undertaken the correction of the detected control-failures. We have repeated the assessment on the basis of the statements made by the institutions. The result of the second assessment was that the summarised evaluation of control components improved by 31% and reached a 92.9% compliance level.

Recommendations

On the basis of our audit findings we have made a recommendation in order to strengthen the internal audit activities of budgetary institutions. According to our recommendation addressed to the heads of organisations managing the chapters and to the institutions (National Archives of Hungary, Office of the President of the Republic, Constitutional Court of Hungary, Prime Minister's Office, Ministry of Rural Development, National Tax and Customs Administration of Hungary, Ministry of Foreign Affairs, Ministry of Human Resources, Hungarian

Competition Authority), it is justified to review the number of employees, the importance and the role of internal audit units at the institutions, in order to make the internal audit units suitable for the regular auditing of the entire control system.