



A-40-002/2004

**The Audit Plan
of the State Audit Office
for the year 2005**

Approved by:

Dr. Kovács Árpád

President



Budapest, 15 December 2004

INTRODUCTION

I.

The State Audit Office (SAO) performs its auditing activities on the basis of a medium term auditing strategy and supports its annual audit plan with an outlook for a further two years. The audit plan is approved by the president of the institution, who is also responsible for its implementation.

The basis for the SAO plan for the year 2005 was provided by the plan for the year 2004, the fulfilment of which was carried out according to the schedule. Only three minor modifications occurred during the year and the comprehensive audit of several local governments was published in separate audit reports.

The laws relating to the SAO grant the institution an exceptionally broad sphere of obligations and authorisations – even when compared to the international arena. Thus the SAO can follow up the use of public funds and public property not only in the field of public finance but also in the business (private) sector – in the stipulated scope and using the stipulated method.

Compared to the previous years, no major changes occurred in the audit tasks of the SAO, fulfilment of the audit obligations has been performed in compliance with the formerly established audit methods. The organisation has to comply with its obligations and licences with a limited human resource capacity compared to the extent of the tasks.

The audit plan presents all ongoing SAO audits in the given calendar year (subject year). Owing to the continuous auditing tasks, each annual plan categorises the audit tasks in three main groups: audits started in the previous year and to be completed in the subject year; audits started and to be completed in the subject year and audits started in the subject year and to be completed in the subsequent year. Therefore titles will appear that are familiar from the annual plan for the previous year, and similarly, the tasks carried over will be included in the plan for the subsequent year.

II.

The regulations of the effective legal system provide for audit obligations to be performed with determined frequency and time schedule – annually, every other year – or regularly. In case the law provides for regular auditing without the exact indication concerning frequency, the SAO – in order to fulfil the auditing obligation – performs the tasks with the schedule established by itself.

Each year the determinant tasks of the SAO's activities include the fulfilment of the auditing obligations with the stipulated frequency determined by law. The sphere of these obligations remained unchanged: presenting an expert opinion on the state budget bill, presenting an expert opinion on and auditing of the final accounts, auditing the utilisation and the accounting of support provided to local governments from the central budget and auditing the operation and the financial management of the State Privatisation Agency, the National News Agency and the political parties.

In 2004, with the audit of the final accounts on the year 2003, the auditing of the final accounts complemented by the certificate of compliance became complete in the scope assumed by the SAO¹. Therefore the SAO plans the execution of compliance audits in line with the established practice².

¹ The SAO performs financial regularity audits certifying the reliability of the data of the final accounts at the constitutional chapters, the budgetary titles with chapter authorisation, from the institutions supervised by the chapters at the direction titles, at the chapter-managed appropriations and the national economy settlements in the scope contained in the SAO strategy and Decisions No. 69/2002. (X. 4.) and 35/2003. (IV. 9.) confirming the strategy. (72.8% of the total expenditure of the central budget and 89.0% of the total revenue for the year 2003 was audited with the methodology of financial compliance audit attesting the reliability of the final accounts data.)

Concerning the performance of the financial regularity audits affecting the supervised sphere of institutions, with regard to the number of institutions (nearly 800 institutions), further efforts are required from the Government in order to create the conditions for the full-scale audit of the final accounts and the implementation of the provisions based on the decisions of the National Assembly and contained in the act on public finances and in the related government decrees.

² In connection with the amendment of the act on public finances on the agenda at that time, in November, 1995 the SAO called the attention of the Audit Commission of the National Assembly and the Minister of Finance —on the modification of the deadline for submitting the final accounts bill to the National Assembly. This was repeated recently because at the Ministry of Finance the re-formulation of the act on public finances was on the agenda. It would affect our annual audit plan for the following year and it would result in the deepening of the compliance audit of the final account and reduction of the burdens of the participating budgetary chapters, if – in line with our proposal following the renewal of the act on public finances – the final accounts bill would be put on the agenda of the National Assembly in the first half year of the second year following the budgetary year. (This way the errors detected by the State Audit Office could be corrected and would not burden the bill and its parliamentary discussion debate.)

Simultaneously with the audit of the final accounts of the state budget are audited the budgetary relations of the local governments. The report on the final accounts contains the findings of the reports prepared on the audit of the claiming, utilisation and accounting of normative state contributions, restricted financial assistance for local governments and subsidies intended for accumulation.

A decisive part of the regular tasks provided by law is made up of the audit of the financial management of budgetary chapters and local governments. This task is fulfilled by the SAO in the framework of so-called comprehensive audits.

The SAO audit of the economic management of the budgetary chapters that are decisive from the aspect of constitutional order will be performed in each parliamentary cycle with the methodology of comprehensive audit. The audit of further chapters is scheduled with regard to the current subjects and issues and depending on the audit capacity. The audit of 15 budgetary chapters appears in the plan for the year 2005. This includes chapters as the Prime Minister's Office, the Ministry of Interior, the Ministry of Environmental Protection, the Ministry of Education and the Ministry of Employment and Labour.

Beside the report summarising our findings, gathered at the field comprehensive audit of several hundred local governments – similarly to the previous year – the audits of local governments possessing a significantly large budget or properties are presented as published in 20 separate reports. This includes, among others, the audit of the local governments of the County Status Towns of Pécs, Szeged and Szolnok and of Békés, Nógrád and Zala counties.

The legal tasks to be fulfilled with the regularity determined by law require an increasing portion of the annual auditing capacity, already nearly 80% in 2005. So far, in the average of several years, the rate of the legal tasks to be fulfilled regularly and the tasks determined by the decision of the President has been characterised by 60:40%. In 2005, beside the decrease of the rate of audits started by presidential decision, the capacity usage related to audits on final accounts and the budget and to comprehensive audits on chapters and local governments has been increasing, the rate of audits performed on the basis of presidential decision has been about 20% when looking at the tied-up capacity. This decrease in the rate however does not imply any narrowing since the rules on subject selection, taking into account the actuality, are enforced during the selection and fulfilment of the regular tasks.

III.

One of the key objectives of annual planning is the well-founded selection of the audits to be included in the annual plan, since this greatly affects the timeliness of the audits, utilisation of the audit findings, therefore the effective employment of SAO resources.

The number of audit fields and determination is large, therefore the audit capacities related to the audit obligations and requirements are always scarce. Consequently, selecting the audit subjects is an important professional decision. The President of the SAO decides on the execution of the audits based on risk assessment and background studies, with regard to the strategic objectives and the legal regulations applicable to the SAO.

The plan for the year 2005 especially focuses on the audit on the operation of organisations falling outside the framework of public finance and on the usage of the funds appropriated to these organisations; and on the audits supporting the effective utilisation of EU sources. Altogether 21 audit tasks have been included in the planning document in these two topics. Among others the following subjects have been included: the audit of several foundations and public foundations; the audit of economic associations under state ownership, operating with continuous deficit; the audit of subsidies intended for accumulation provided by local governments outside the framework of public finance and funds transfer; and the audit of several financial institutions in state ownership (Eximbank Corp., Mehib Corp., the Hungarian Development Bank Corp.). Beside the audit of the certifying bodies of SAPARD and EMOGA, the highlight within the EU field is mainly on the audit of the implementation of the ISPA programs, the Regional Development chapter and the National Development Plan.

Several audits attracting public attention will be finalised and closed. These include the evaluation of the efficiency of the funds spent on the "Statistics" National Program and the National Cultural Fund and the audit of the operation of the task financing system in higher education, the operation of the corporation tax collection system, the maintenance of public cemeteries, the condition of baths and medicinal baths in local government ownership, the results of the guided healthcare pilot model, the preparation for the prevention of natural disasters and of the operation of the treasury assets.

Concerning the audit on the implementation of the EU budget, the main responsibility falls on the European Court of Auditors, however the national audit offices play an important role within their own countries in the audit of financial management and accounting of EU funds. The SAO performs audits with respect to the utilisation and accounting of funds deriving from EU sources, these audits form part of the annual audit plan with assigned tied-up capacity and time schedule. Beyond that, the demand has emerged from the European Union on developing co-operation between the European Court of Auditors and the Member State organisations by the further support of the field audits of the

European Court of Auditors and the yearly summarised evaluation of the findings concerning the audits related to EU sources. The audit plan for the year 2005 does not include any special capacity requirements in this respect.

On the basis of the preliminary program with the outlook until 2007, the SAO considers necessary the comprehensive evaluation of the field with by presenting multilateral connections primarily with respect to the income of the central budget, the development of higher education, the regional and local development, the protection of state property and public funds falling outside public finances, furthermore to the EU funds and domestic partner financing.

The SAO intends to publish in 2005 several studies similar to the previous ones. These publications – in line with the SAO's advisory role – are not compiled with the exigence and set of requirements of the audit reports and opinions, rather they are based on a wider range of information, nevertheless they're heavily building on the audit experiences gained in the given field. The studies to be prepared in 2005 cover a number of main topics such as the requirements and risks of public finances reform including the issues on the task fulfilment and financing of local governments, the role of SAIs in enforcing the environmental requirements, the evolution and management of public debt, and the challenges of knowledge-based society and economy, with special regard on innovation and research and development.

IV.

The audit plan for the year 2005 includes 98 audits which is nearly equal in number compared to the previous year. The SAO plans to fulfil the tasks for 2005 with the given staff number; during the planning of its auditing capacity, no surplus of staff has been considered, while the employment of external experts has been accounted for.

From the capacity serving the fulfilment of the plan– measured in audit days – presenting an expert opinion on the state budget bill and auditing its implementation requires about 34%, the audits related to the central budget add up to about 22% while the audits of local governments amount to about 28%. These altogether represent approximately four fifth of the annual auditing capacity. As a consequence of task schedule and the overlaps between the years, the number of reports planned to be published in 2005 is 70.

For the implementation of the audit plan, the SAO plans to use nearly 84 thousand audit days in 2005, which comprises of nearly 66 thousand direct and nearly 18 thousand indirect audit days. The direct audit days refer to the working time utilisation of the auditors participating in field audits, while the indirect audit days refer to the work supporting field audit – quality assurance, legal, information technology and administrative duties. The cost of a single audit day (projected to one direct audit day) amounts to 114,200 HUF.

Each year the SAO counts with the tie-up of its complete auditing capacity, accordingly it does not have any capacity reserves for 2005. For this reason, in case of tasks in excess of the plan, the modification of the audit plan is necessary, which could imply the delay or cancellation of certain audits.

LIST OF SUBJECTS

(Table of contents based on the serial number
of the audit subjects)

I. AUDITS STARTED IN 2004 AND CARRIED OVER TO 2005

I. AUDITS RELATED TO AUDITING THE IMPLEMENTATION OF THE BUDGET AND THE FORMING OF OPINIONS ON BUDGETARY APPROPRIATIONS

01 Audit of the implementation of the budget of the Republic of Hungary for the year 2004

II. AUDITS RELATED TO THE CENTRAL BUDGET

02 Audit of the utilisation of earmarked amounts aimed at the fulfilment of family policy objectives

03 Audit of the utilisation of the funds spent on the "Statistics" national program

04 Audit of the operation of the Constitutional Court chapter

05 Audit of the utilisation of the funds spent on the National Cultural Fund

06 Audit of the operation of the Ministry of Informatics and Communications chapter

07 Audit of the operation of the Ministry of Health, Social and Family Affairs chapter

08 Audit of the operation of the task financing system in higher education

09 Audit of environmental protection and nature conservation in the Hungarian-Austrian-Slovenian border region

10 Audit of the operation of the Ministry of Education chapter

11 Audit of the operation of the Hungarian Customs and Finance Guard

12 Audit of the operation of the Ministry of Defence chapter

13 Audit of the operation of the corporation tax collection system

III. AUDITS RELATED TO LOCAL GOVERNMENTS AND MINORITY LOCAL GOVERNMENTS

14 Comprehensive audit of the financial management of the local government of the XVIII district of Pestszentlőrinc – Pestszentimre

15 Comprehensive audit of the financial management of local governments and minority local governments

16 Audit of the maintenance of public cemeteries

17 The current condition of baths, and especially medicinal baths, in local government ownership and their development prospects, with special emphasis on tourism

18 Comprehensive audit of the financial management of the Municipal Government of County Status town of Győr

19 Provision and funding issues of local government public education and library services

20 Audit of healthcare investments and renovations financed from earmarked subsidies

21 Comprehensive audit of the financial management of the Local Government of Pest County

- 22 Comprehensive audit of the financial management of the Municipal Government of the XIII district of Budapest

IV. SEGREGATED PUBLIC FUNDS

- 23 Audit of the operation of the Central Nuclear Fund

V. AUDITS RELATED TO THE SOCIAL SECURITY FUNDS

- 24 Audit of the guided healthcare pilot model

VI. AUDITS RELATED TO THE ENTREPRENEURIAL AND TREASURY ASSETS OF THE STATE

- 25 Audit of the financial management and operation of treasury assets
26 Audit of the financial management of the Hungarian News Agency Corporation in 2004

VII. AUDITS RELATED TO FOREIGN FINANCIAL ASSISTANCE

- 27 Audit of transport development programmes realised with ISPA financial assistance
28 2004 certifying audit of the Hungarian institutional framework set up in order to implement the SAPARD programme and to effect payments of financial assistance.
29 2004 certifying audit of the organisation serving as the Paying Agency administering the measures financed under the European Agricultural Guidance and Guarantee Fund
30 2005 certifying audit of the organisation serving as the Paying Agency administering the measures financed under the European Agricultural Guidance and Guarantee Fund

VIII. AUDITS RELATED TO ORGANISATIONS FALLING OUTSIDE THE FRAMEWORK OF PUBLIC FINANCE

- 31 Audit of the regularity of the financial management of political parties not receiving financial assistance from the central budget in 2001-2004
32 Audit of the operation of the Hungarian Export-Import Bank Corporation
33 Audit of the financial management of the National Boarding School Public Foundation
34 Audit of the financial management of the Apáczai Public Foundation for Hungarian Education Beyond the State Borders
35 Audit of the operation of the National Bank of Hungary in 2004
36 Audit of the operation of the Hungarian Export Credit Insurance Corporation

X. OTHER AUDITS

- 37 Audit of the preparation for the prevention of natural disasters

II. AUDITS STARTED IN 2005 AND TO BE COMPLETED IN 2005

I. AUDITS RELATED TO AUDITING THE IMPLEMENTATION OF THE BUDGET AND THE FORMING OF OPINIONS ON BUDGETARY APPROPRIATIONS

38 Opinion on the budget of the Republic of Hungary for the year 2006

II. AUDITS RELATED TO THE CENTRAL BUDGET

39 Audit of the operation of the Presidency of the Republic chapter

40 Audit of the operation of the Ministry of Employment and Labour chapter

41 Audit of the operation of the National Assembly chapter

42 Audit of the operation of the Ministry of Justice chapter

43 Audit of the accounting of funds used for the execution of the election of the members of the European Parliament held on 13 June 2004 and of the national peremptory referendum of 5 December 2004

44 Audit of the operation of the Ministry of Youth, Family and Social Affairs and Equal Opportunities chapter

III. AUDITS RELATED TO LOCAL GOVERNMENTS AND MINORITY LOCAL GOVERNMENTS

45 Comprehensive audit of the financial management of the Local Government of Békés County

46 Audit of the regularity and systematic property management of the Metropolitan Municipal Government of Budapest as part of the multi-year comprehensive audit of its financial system

47 Comprehensive audit of the financial management of the Local Government of Nógrád County

48 Comprehensive audit of the financial management of the Local Government of Vas County

49 Comprehensive audit of the financial management of the Local Government of Zala County

50 Comprehensive audit of the financial management of the Municipal Government of County Status town of Pécs

51 Comprehensive audit of the financial management of the Municipal Government of County Status town of Dunaújváros

52 Comprehensive audit of the financial management of the Municipal Government of County Status town of Kaposvár

53 Comprehensive audit of the financial management of the Municipal Government of County Status town of Szolnok

54 Comprehensive audit of the financial management of the Municipal Government of County Status town of Veszprém

55 Comprehensive audit of the financial management of the Municipal Government of the III district of Budapest Óbuda-Békásmegyér

56 Comprehensive audit of the financial management of the Municipal Government of the Józsefváros VIII district of Budapest

57 Comprehensive audit of the financial management of the Municipal Government of the XI district of Budapest

58 Comprehensive audit of the financial management of the Municipal Government of County Status town of Szeged

59 Comprehensive audit of the financial management of the Municipal Government of the XV district of Budapest Rákospalota-Pestújhely

- 60 Comprehensive audit of the financial management of the Municipal Government of the XX district of Budapest Pesterzsébet
- 61 Effectiveness of the usage of financial subsidies especially aimed at accumulation and transferred funds, provided by the local governments outside the framework of public finance

IV. SEGREGATED PUBLIC FUNDS

Due to the scheduling of audit subjects, no audits are planned

V. AUDITS RELATED TO THE SOCIAL SECURITY FUNDS

Due to the scheduling of audit subjects, no audits are planned

VI. AUDITS RELATED TO THE ENTREPRENEURIAL AND TREASURY ASSETS OF THE STATE

- 62 Audit of the operation of the Hungarian Privatisation and State Holding Company in 2004 and its activity related to the implementation of the central budget

VII. AUDITS RELATED TO FOREIGN FINANCIAL ASSISTANCE

Due to the scheduling of audit subjects, no audits are planned

VIII. AUDITS RELATED TO ORGANISATIONS FALLING OUTSIDE THE FRAMEWORK OF PUBLIC FINANCE

- 63 Audit of the regularity of the financial management of the Táncsics Mihály Foundation in 2003-2004
- 64 Audit of the regularity of the financial management of the Szabó Miklós Scientific, Informative, Research and Educational Liberal Foundation in 2003-2004
- 65 Audit of the operation of the Hungarian Debt Management Corp.
- 66 Audit of the operation of the National Radio and Television Commission and the Broadcasting Fund
- 67 Audit of the regularity of the financial management of the Hungarian Truth and Life Party in 2003-2004
- 68 Audit of the regularity of the financial management of the Alliance of Free Democrats in 2003-2004
- 69 Audit of the regularity of the financial management of the Hungarian Socialist Party in 2003-2004
- 70 Audit of the financial-economic activity of the National Slovak Ethnic Local-Government in 2001-2004
- 71 Audit of the financial-economic activity of the National German Ethnic Local Government in Hungary -in 2001-2004
- 72 Audit of the financial-economic activity of the National Bulgarian Ethnic Local-Government in 2001-2004
- 73 Audit of the funds spent by the candidate organisations for the mid-term parliamentary election campaign in 2004

X. OTHER AUDITS

Due to the scheduling of audit subjects, no audits are planned

III. AUDITS STARTED IN 2005 AND CARRIED OVER TO 2006

I. AUDITS RELATED TO AUDITING THE IMPLEMENTATION OF THE BUDGET AND THE FORMING OF OPINIONS ON BUDGETARY APPROPRIATIONS

74 Audit of the implementation of the state budget for the year 2005

II. AUDITS RELATED TO THE CENTRAL BUDGET

75 Audit of the operation of the Prime Minister's Office chapter

76 Audit of the operation of the Ministry of Environment and Water chapter

77 Audit of the operation of the Hungarian Academy of Sciences chapter

78 Audit of the real estate management of the state institutions of higher education

79 Audit of the operation of the Tax and Financial Control Administration chapter

80 Audit of the operation of the Regional Development chapter

81 Audit of the operation of the Ministry of Interior chapter

82 Audit of the privatisation of specialised health care services

III. AUDITS RELATED TO LOCAL GOVERNMENTS

83 The conditions for the maintenance and development of residential colleges for secondary education

84 Comprehensive and other regularity audit of the financial management of local governments and minority local governments

85 Assurance of the conditions for pre-school and primary school education in small settlements

IV. SEGREGATED PUBLIC FUNDS

Due to the scheduling of audit subjects, no audits are planned

V. AUDITS RELATED TO THE SOCIAL SECURITY FUNDS

86 Audit of the operation of the Pension Insurance Fund

VI. AUDITS RELATED TO THE ENTREPRENEURIAL AND TREASURY ASSETS OF THE STATE

87 Audit of the financial management of the Hungarian News Agency Corp. in 2005

88 Audit of the financial management of the economic associations under state ownership operating with continuous deficit

VII. AUDITS RELATED TO FOREIGN FINANCIAL ASSISTANCE

89 Audit of the implementation of the National Development Plan

90 2005 certifying audit of the Hungarian institutional framework set up in order to implement the SAPARD programme and to effect payments of assistance.

91 2006 certifying audit of the organisation serving as the Paying Agency administering the measures financed under the European Agricultural Guidance and Guarantee Fund

VIII. AUDITS RELATED TO ORGANISATIONS FALLING OUTSIDE THE FRAMEWORK OF PUBLIC FINANCE

- 92 Audit of the financial management of the Wesselényi Miklós Sports Public Foundation
- 93 Audit of the operation of the Hungarian Development Bank Ltd.
- 94 Audit of the operation of the National Bank of Hungary in 2005
- 95 Audit of the financial-economic activity of the National Croatian Self-Government in 2001-2004
- 96 Audit of the budgetary subsidies provided from the National Civic Base Program to civic organisations

IX. PUBLIC DEBT

- 97 Audit of the evolution and management of public deficit

X. OTHER AUDITS

- 98 Audit of the institution system caring for the homeless