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**The Audit Plan
of the State Audit Office
for the year 2006**

Approved by:

Dr. Árpád Kovács
President

Budapest, 21 December 2005

INTRODUCTION

I.

The State Audit Office (SAO) performs its audit activities on the basis of a medium-term audit strategy. The achievement of the strategic objectives and the implementation of the tasks are supported by a professional planning circular decided annually. The annual audit plan covers an additional period of two years and provides a time-schedule for the audit tasks. The audit plan is approved by the President of the SAO who is also responsible for its implementation.

The audit plan for the year 2006 is based on the plan for 2005. The audits carried over from 2005 (29), to some extent, determine the new audit plan as well as bind 37% of the capacities.

The audit plan presents all ongoing SAO audits in the given calendar year (subject year). Owing to the continuous nature of the work, the audit tasks are categorised into 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.

Compared to the previous years there are no major changes in the audit tasks of the SAO. In relation to the scope of its tasks, the organisation will continue to comply with its audit obligations using a limited capacity of human resources.

Several measures have been introduced in recent years in order to guarantee the high quality of the audit work and its results. The results achieved so far and experiences gained through studying quality management systems of other countries have offered a good basis for the comprehensive regulation of the quality management system of the audits. From 1 January 2006, the system and comprehensive regulation of quality management elements, processes and procedures will be introduced by an order of the SAO's President. Accordingly, the quality management system must operate as an organic part of all elements of the internal control system of the audit activity.

II.

The tasks to be carried out - annually or biannually – as prescribed by law have a determining role in the planning of the audits. The scope of these tasks remains unchanged: auditing of and expressing opinion on the central budget and final accounts bills, audit of the utilisation and the accounting of subsidies granted to local governments from the central budget, audit of the State Privatisation Agency, the National News Agency and political parties. For the above tasks, which are to be carried out with specified regularity, an audit capacity similar to that of the previous year will be required.

The audit of final accounts and the opinion on the budget require 37% of the annual audit capacity. The SAO plans and performs the financial compliance audit of the final accounts, completed by qualifying the reliability of the financial accounts of budgetary chapters (DAS audit), in accordance with the established practice. Within that framework, the audit of the budgetary relations of local governments is carried out simultaneously with the audit of the implementation of the central budget.

The audit of the financial management of budgetary chapters, local governments, social security funds and separated state funds are tasks to be carried out on a regular basis with the regularity determined by the SAO itself, taking account of the feasibility of the tasks. These are fulfilled by the institution through the so-called comprehensive audits.

The comprehensive audits of the budgetary chapters and local governments represent a dominant capacity utilisation, with the priority objective of auditing the operation and efficiency of public administration.

The SAO plan for the year 2006 contains the comprehensive audit of eight budgetary chapters, including – as new subjects – among others, the audit of the Ministry of Agriculture and Regional Development, the Ministry of Foreign Affairs, the Ministry of National Cultural Heritage and the Prosecutor's Office.

In addition to the report summarising the experience gained in the course of the comprehensive field audit of over 500 local governments, the audit of 18 local governments with substantial budget or property falls within the scope of the plan, including among others, the audit of the capital city of Budapest, six districts of Budapest, five counties (Győr-Moson-Sopron, Baranya, Somogy, Veszprém, Heves) and the local governments of six county status towns (Nyíregyháza, Nagykanizsa, Tatabánya, Békéscsaba, Sopron, Hódmezővásárhely).

The tasks to be performed annually or on a regular basis listed in this Chapter (II) will require 70% of the total audit capacity in 2006.

III.

Based on the above, a significant proportion of the capacity-utilisation is determined. As a consequence of that and the number and diversity of the audit fields, there is always a limited audit capacity available. Therefore, on top of the “obligatory” audit tasks, the selection of the audit subjects that fall within the competence of the President is an important professional decision. The President of the SAO takes a decision on the execution of the audits on the basis of extensive risk assessment and background studies. In respect of the audits carried out within this scope, the significance of performance audits will gradually be increased.

Similarly to the previous year, the plan for 2006 gives special focus to audits promoting the efficient utilisation of EU funds. The audit of PPP investments and the utilisation of additional funds for development represents new, priority elements in the plan. Thus, the plan includes, for instance, the comparative audit of the financing arrangements of motorway investments, as well as the audit of the following: motorway investments to be completed in 2006, railway transport modernisation, the construction and operation of the Palace of Arts and the improvement of electronic government services.

Several audits of public interest will be finalised and concluded, such as the audit of the operation of the Tax and Financial Control Administration, the privatisation of specialised health care services, the financial management and development of public debt, and the financial management of state-owned economic associations operating with a continuous deficit. A number of audits will be launched in 2006, including, among others, the audit of the realisation of VAT and customs revenues, the location and tangible asset supply of ministries, and as a joint audit by the two audit directorates of the SAO, auditing the support of public works programmes and the medicine management of hospitals owned by the state or local governments.

The audit plan introduces three new audits, relating to PPP-programmes and to the use of EU funds, to be carried out parallel with other national audit offices (Slovakian, Austrian-Slovenian).

Based on a preliminary thematic programme covering the period until 2008, the SAO will evaluate and perform several comprehensive audits in the areas of EU financial assistance, central budgetary revenues, public health, higher education, regional and urban development, state assets and transport.

At its session in November 2005, the National Assembly adopted the final accounts bill for the year 2004, which sets out as an additional task for the SAO for the next year to audit whether the support for public utilities development transferred until the end of 2005 from the central budget to the local governments for road and sewage system construction has been applied and used legally, with special regard to investments carried out within the Support for Local Governments Disadvantaged Beyond their Control (in Hungarian: ÖKOTÁM) or within a similar scheme. In order to incorporate the mentioned task into the SAO’s plan, the necessary pieces of information, i.e. volume of the

task, the sites to be audited, the audit capacity requirement and the time-schedule of the work are still to be obtained.

The idea was raised first by the European Union that there is a need to develop co-operation between the European Court of Auditors and the Member State organisations through further support of the field audits of the European Court of Auditors and by the annual summary evaluation of the findings related to the audits of EU funds. The summary will be drawn up by the SAO in course of 2006. The audit plan does not contain any specific capacity-requirement with respect to that.

IV.

The SAO plans to perform the tasks set out for the year 2006 with the available staff. The room for manoeuvring with respect to the utilisation of available capacities is assured by organisational measures, in an intensive manner, and by reducing the time devoted to training and education. The established system of distant learning diminishes the time required for education and in-service training

We have further “fine-tuned” the planning system, which enabled us to make a more accurate account of and plan for the activities directly supporting the audit. No extra staff members have been built into the SAO audit plan, but the need for external experts has been reckoned with to the same extent as last year.

The audit plan contains 86 audits for the year 2006, a decrease of 12 audits compared to the previous year. It is a deliberate aspiration of the SAO to reduce the number of audits, because the requirements of the integrated quality assurance system designed to be launched and high quality audits can only be met and ensured respectively with an „optimum” number of audits. In addition, it is to be borne in mind that there is a limit to the amount of audits that can be handled by both the auditee and the public. 66 audit reports are planned to be published in 2006.

Similarly to the previous year, the SAO intends to use 86 thousand audit days for the implementation of the audit plan, i.e. approximately 66 thousand direct and 20 thousand indirect audit days. The direct audit days indicate the working time used by the auditors for carrying out the field audits, while the indirect audit days mean the performance of – managerial, quality assurance, legal, information and administrative - activities which support the field audit and the drawing up and publishing of reports. The costs of a single audit day (projected to one direct audit day) amounts to HUF 112 thousand.

The SAO calculates upon the utilisation of its whole audit capacity each year, thus no capacity reserves will be available for 2006. As a result, in respect of any tasks other than the ones included in the plan, the modification of the audit plan will be necessary, which may lead to the delay or cancellation of certain audit tasks.

V.

As in the past, the Research and Development Institute of the SAO intends to publish a number of studies in 2006. In compliance with the SAO's advisory role, these publications are not drawn up solely within the framework of the requirements of audit reports and opinions, rather they are based on a wider information background, although strongly relying on the audit experience obtained in the given field.

Two studies are linked directly to the audits completed in the subject year as supplementary background documents. The first deals with the analysis of various subject areas connected with corruption risks, a factor which poses a special threat to the operation of local governments, the second addresses the long-term tendencies in respect of the Hungarian public debt. Others studies that deal with the public finances reform and accounting, the relationship between competitiveness and public administration, the development of knowledge-based economy in Hungary are aimed at offering a professional policy background for the preparation of the given audits and, in a broader sense, for the decision-making of parliamentary deputies.

LIST OF SUBJECTS

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

I. AUDITS STARTED IN 2005 AND CARRIED OVER TO 2006

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

01 Audit of the implementation of the budget of the Republic of Hungary for the year 2005

II. AUDITS RELATED TO THE CENTRAL BUDGET

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

03 Audit of the operation of the of the Ministry for Environment and Water Management chapter

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

05 Audit of the property management of public institutions of higher education

06 Audit of the operation of the Tax and Financial Control Administration

07 Audit of the operation of the Regional Development chapter

08 Audit of the operation of the Ministry of the Interior chapter

09 Audit of the privatisation of specialised health care services

III. AUDITS RELATED TO LOCAL GOVERNMENTS AND MINORITY LOCAL GOVERNMENTS

10 Conditions of the maintenance and development of residential halls for secondary schools

11 Comprehensive and other compliance audit of the financial management system of local governments and minority local governments

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

IV. AUDITS RELATED TO THE SOCIAL SECURITY FUNDS

13 Audit of the operation of the Pension Insurance Fund

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

14 Audit of the financial management of the Hungarian News Agency Corporation in 2005

15 Audit of the financial management of the state-owned economic associations operating with a continuous deficit

VI. AUDITS RELATED TO FOREIGN FINANCIAL ASSISTANCE

16 Audit of the implementation of the National Development Plan

17 2005 certifying audit of the Hungarian institutional framework set up in order to implement the SAPARD Programme and to effect payments of financial assistance

18 2006 certifying audit of the organisation serving as the Paying Agency administering the measures financed under the European Agricultural Guidance and Guarantee Fund

- 19 Audit of the system and practice dealing with frauds and irregularities related to financial assistance received from the Structural Funds of the European Union

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

- 20 Audit of the financial-economic activity of the National Bulgarian Self-Government in the period of 2001-2004
- 21 Audit of the financial management of the Wesselényi Miklós Sports Public Foundation
- 22 Audit of the operation of the National Development Bank Ltd.
- 23 Audit of the operation of the National Bank of Hungary in 2005
- 24 Audit of the financial-economic activity of the National Croatian Self-Government in the period 2001-2004
- 25 Audit of the budgetary subsidies allocated by the National Civic Base Program to civic organisations
- 26 Audit of the non-profit financial management of the National Secretariat of the Hungarian Red Cross in 2003-2004
- 27 Audit of the application for and utilisation of public utilities development support used for road and sewage system projects in the period of 2002-2005

VIII. PUBLIC DEBT

- 28 Audit of the development and management of public debt

IX. OTHER AUDITS

- 29 Audit of the institution system of caring for the homeless

II. AUDITS STARTED IN 2006 AND PLANNED TO BE COMPLETED IN 2006

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

30 Opinion on the budget of the Republic of Hungary for the year 2007

II. AUDITS RELATED TO THE CENTRAL BUDGET

31 Audit of the operation of the Prosecutor's Office of the Republic of Hungary chapter

32 Audit of the location and tangible assets supply of ministries and agencies of national jurisdiction

33 Audit of the conditions for the realisation of customs revenues due to the Community and national budget and the efficiency of customs proceedings

III. AUDITS RELATED TO LOCAL GOVERNMENTS AND MINORITY LOCAL GOVERNMENTS

34 Audit of the proper balance between the municipal tasks and the available resources of the Metropolitan Local Government of Budapest as part of the multi-annual comprehensive audit of its financial management system

35 Comprehensive audit of the financial management system of the Local Government of the XVII district of Budapest

36 Comprehensive audit of the financial management system of the Local Government of the XIV district of Budapest

37 Comprehensive audit of the financial management system of the Local Government of the XII district of Budapest

38 Comprehensive audit of the financial management system of the Local Government of the VII district of Budapest

39 Comprehensive audit of the financial management system of the Local Government of the XXIII district of Budapest

40 Comprehensive audit of the financial management system of the Local Government of the XXI district of Budapest

41 Comprehensive audit of the financial management system of the Local Government of Győr-Moson-Sopron County

42 Comprehensive audit of the financial management system of the Municipal Government of the County Status town of Nyíregyháza

43 Comprehensive audit of the financial management system of the Local Government of Baranya County

44 Comprehensive audit of the financial management system of the Local Government of Somogy County

45 Comprehensive audit of the financial management system of the Local Government of Veszprém County

46 Comprehensive audit of the financial management system of the Local Government of Heves County

47 Comprehensive audit of the financial management system of the Municipal Government of the County Status town of Nagykanizsa

48 Comprehensive audit of the financial management system of the Municipal Government of the County Status town of Tatabánya

49 Comprehensive audit of the financial management system of the Municipal Government of the County Status town of Békéscsaba

- 50 Comprehensive audit of the financial management system of the Municipal Government of the County Status town of Sopron
- 51 Comprehensive audit of the financial management system of the Municipal Government of the County Status town of Hódmezővásárhely

IV. AUDITS RELATED TO THE SOCIAL SECURITY FUNDS

- 52 Audit of the operation of the Health Insurance Fund

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

- 53 Audit of the maintenance of public roads
- 54 Audit of the construction and operation of the Palace of Arts
- 55 Audit of the operation of the Hungarian Privatisation and State Holding Company in 2005 and its activities related to the implementation of the central budget

VI. AUDITS RELATED TO FOREIGN FINANCIAL ASSISTANCE

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

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

- 56 Comparative audit of the financing arrangements of the motorway investments
- 57 Audit of the operation of the Land Credit and Mortgage Bank Ltd.
- 58 Audit of the financial-economic activity of the National Greek Self-Government in the period of 2001-2004
- 59 Audit of the financial-economic activity of the National Self-Government of the Romanians living in Hungary in the period of 2002-2005
- 60 Audit of the financial-economic activity of the National Slovenian Self-Government in the period of 2002-2005
- 61 Compliance audit of the financial management of the Hungarian Democratic Forum in 2004-2005
- 62 Compliance audit of the financial management of the FIDESZ (Federation of Young Democrats)-Hungarian Civic Party in 2004-2005
- 63 Audit of the utilisation of budgetary subsidies granted to the Hungarian Motion Picture Public Foundation
- 64 Compliance audit of the financial management of the Antall József Foundation in 2003-2005
- 65 Compliance audit of the financial management of the Alliance for a Civic Hungary Foundation in 2003-2005

VIII. PUBLIC DEBT

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

IX. OTHER AUDITS

- 66 Audit of the schoolbook supply system of institutions of public education

III. AUDITS STARTED IN 2006 AND CARRIED OVER TO 2007

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

67 Audit of the implementation of the budget of the Republic of Hungary for the year 2006

II. AUDITS RELATED TO THE CENTRAL BUDGET

68 Audit of the operation of the Ministry of Agriculture and Regional Development chapter

69 Audit of the operation of the Ministry of National Cultural Heritage chapter

70 Audit of the operation of the Ministry of Foreign Affairs chapter

71 Audit of the realisation of VAT revenues due to the budget

72 Audit of the development of electronic government services

73 Audit of the utilisation of funds for the support of public works programmes

III. AUDITS RELATED TO LOCAL GOVERNMENTS

74 Comprehensive and other compliance audit of the financial management system of local governments and minority local governments

75 Audit of the local governments' activities related to basic social services

76 Fulfilment of the tasks of municipal local governments related to water management and drainage

IV. AUDITS RELATED TO THE SOCIAL SECURITY FUNDS

77 Audit of the medicine management of hospitals owned by the state or local governments

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

78 Audit of the higher education investment programme for residential halls

79 Audit of the modernisation of railway transport

80 Audit of the financial management of the Hungarian News Agency Corporation in 2006

VI. AUDITS RELATED TO FOREIGN FINANCIAL ASSISTANCE

81 2006 certifying audit of the Hungarian institutional framework set up in order to implement the SAPARD Programme and to effect payments of financial assistance

82 Audit of the operation of the Hungarian monitoring and control system for EU financial assistance

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

83 Audit of the motorways investments to be completed in 2006

84 Audit of the operation of the National Bank of Hungary in 2006

85 Compliance audit of the financial management of the Alliance for Hungary - Centre Party in 2004-2005

86 Compliance audit of the financial management of the Workers' Party in 2004-2005

VIII. PUBLIC DEBT

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

IX. OTHER AUDITS

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