



STATE AUDIT
OFFICE OF HUNGARY

2008 Audit Plan of the State Audit Office of Hungary

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Approved by

Dr. Árpád Kovács
President

INTRODUCTION

I.

The State Audit Office of Hungary (SAO) performs its audit activities on the basis of the annual audit plan approved by its President. The compilation of the audit plan for 2008 – beyond the resolutions adopted by the National Assembly on the SAO's annual activity – was also supported by the annual professional planning document (circular).

Due to the continuous nature of the audit work, the audit plan presents all SAO-audits under way in the subject year, separately grouping audits that were started in 2007 and will end in 2008, audits that will commence and end in the subject year and audits that will be started in 2008 and will be completed in 2009. The 24 audits that have been carried over to 2008 partly determine the audit plan, since they absorb 40 % of the capacities.

The planning document also provides an outlook for two subsequent years by scheduling audit tasks for 2009 and 2010.

The compilation of the plan is basically determined by regular – annual or biannual – audits prescribed by law and absorbing 43 % of the annual audit capacities.

Such audit tasks include: expressing opinion on and auditing the budget appropriation bill and the bill on the final accounts, auditing the utilization and settlement of accounts relevant to subsidies allocated to local governments from the central budget, auditing the national news agency, the Hungarian Privatization and State Holding Company (from 2008 National State Holding Company), political parties and the foundations of political parties. As of 2007, there is an additional task, namely the audit on the revenues due to and shared by the Budapest Municipality and the Budapest district local governments.

The task of expressing opinion on the budget bill was taken into consideration by the SAO under its present system of audit tasks, the SAO did not (and could not) take into account the stipulations of the bill on budgetary responsibility, already submitted, but not yet passed by the National Assembly. Expressing opinion on the budget bill absorbs 5 % of the capacities, which – dependent on future changes to the legal environment – may partly provide a cover for the increase in the need for capacities, emerging from the expansion in the audit of the final accounts. Some other bills, not yet passed by the National Assembly (e.g. those on the enhanced transparency of funding for political parties, on the regulation concerning the declarations of property), may result in an additional capacity need, not yet quantifiable for the time being.

With an active involvement of the respective audit organizations of the chapters, the SAO's financial regularity audits on the chapters will see a further expansion in 2008. The regularity audit of all government institutions will be almost complete. Only the chapters of the Ministry of Agriculture and Rural Development, Ministry of Health and the Hungarian Academy of Sciences will be covered incompletely. Thus, the SAO will be able to provide opinion, in terms of reliability, on more than 90 % of the total expenditures of the 2007 central budget. The Government Decree 193/2003 on the internal audit of budgetary institutions set the goal that by 2010 the full central budget area should be covered by regularity audit. The SAO strives to promote the implementation of the decree through volunteering additional audit tasks, that is, carrying out financial audits on budgetary institutions.

In addition, local government audits are also fundamental, they absorb 20 % of the capacities. By shifting the emphasis from the former "multi-area" audit focus to a systematic audit approach, such audits intend to evaluate in a comprehensive manner and through an examination of the internal control system set up and run by the respective local government, how the tasks of budgeting, budget implementation and budget audit were performed by the local governments, how local governments treated the internal and external risks that mean a harm for their service provision. Local government audits examine also the preparations for the receipt of EU-funds and the effectiveness of such preparations.

Apart from a summary report on the audit findings gained during the comprehensive on-site audits on several municipal local governments, the audit plan also includes the audit of 17 local governments with considerable budget and assets.

II.

The annual audit plan is a fundamental tool for the implementation of the SAO's strategy. In order to achieve its objectives and tasks, the audit subjects presented in the plan can be grouped, in alignment to the SAO's strategic efforts, around the four following key issues:

1. Audits to support the transparent and regular operation of public finances, to reinforce budgetary security and responsibility:

Audits on the final accounts and the budget, audits to be finished in 2008 on the institutional system of the central budget, on the system of chapter-managed appropriations, the operation of the public procurement system, the operation of state instruments available for economic development, as well as audits starting in 2008 on the operation of the treasury system, the housing subsidy system, and the system of separated state funds;

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2. Audits aiming at the full utilization and proper use of available EU funds and the protection of EU financial interest:

Audits on the operation of the National Development Agency, the utilization of INTERREG-related budgetary appropriations, and grants provided for solid waste management from the Cohesion Fund and national sources;

3. Audits aiming at the protection and efficient utilisation of state development resources, the exploration of the risk factors inherent in the relationships between public finances and the private sector (PPP).

Audits on the motorway investment projects to be completed in 2007, respectively 2008, some high-priority investment projects of local governments, the modernization of the rail transport, the development projects implemented by local governments under the Sport XXI Facility Development Programme;

4. Audits aiming at the effective and efficient compilation of state tasks; the restructuring of the system of public services; the professional fairness of the restructuring and renewing measures.

Audits on the funding system of the Ministry of Education and Culture for non-local governmental institutions and public education tasks; the normative financial contribution (from the central budget) to non-profit organizations maintaining public educational institutions; certain oncological screening programmes; the utilization of funds spent on nursing and rehabilitation by hospitals owned by local governments and residential social institutions; the effectiveness of the Vocational School Development Programme; the modernization of the central public administration; the multifunctional small regional association of local governments. New audit subjects in 2008 are the operation of the system of public health services; the implementation of the Higher Education Act; establishment and development of the system of emergency medical services; the outsourcing of hospital activities.

The SAO intends to engineer its audits in a way that they can provide an overall view on the examined area, raise the issue of sanctioning, and recommend the rectification of failures. Lacking stipulations about the direct responsibility (for failures, mismanagement, etc.), the current regulations allow that expenditures be made in an irregular and inexpedient manner with nearly no consequences. This is impairing the compliance with financial rules. Besides the traditional work of detecting failures, the SAO is also using risk analysis, optimization, both being used also in the international practice.

III.

The audit plan for 2008 contains 78 audits. The SAO plans to publish 55 reports in 2008. To implement the audit plan, 83,000 auditor days are scheduled¹ for the year 2008. This is made up by over 62,000 direct auditor days, covered by the SAO's audit plan, and another 3,000 direct auditor days, covered by SAO's activity plan and necessary for the implementation of other duties, tasks assignments, and finally by 18,000 indirect auditor days. The cost of an auditor day amounts to HUF 112,000 (projected to direct auditor day). In the last 4 years the SAO managed to hold this per-unit cost practically on the same level.

For two years, whenever developing the respective annual audit plan, the SAO has been reckoning that the total staff (both in the direct and indirect area) would decrease. The cost budgeted for the hiring of external experts increased to the twofold of the cost in the previous year, this is connected with subjecting more budgetary institutions to the SAO's audit in the course of auditing the country's final accounts.

The SAO doesn't have any spare human resources for the year 2008, either. Therefore, if due to legislative amendments or for other reasons, new audit tasks, duties, engagements are introduced in addition to the contents of the plan, the audit plan must be amended through postponing or cancelling audits. The SAO's activity-based budget, as submitted to the National Assembly, is built on this set of audit tasks.

IV.

The SAO's Research and Development Institute intends to publish several studies also in 2008. These documents are closely connected with the SAO's advisory role. Consequently, they aren't compiled in line with the requirements associated with the SAO's audit reports, however they heavily rely on the audit experiences obtained in the given field. Through its papers, the Institute presents the different segments of public financial management in a broader context, with summing up the SAO's audit experiences, providing national and international data for comparison, adding research results.

In 2008, the Institute will also strive to present through different papers the social impact of governmental financial assistance, and the performance of public services. A compendium with several studies is going to be published on the utilization of funds, spent for improving the living conditions of the Roma community, respectively on the effectiveness of subsidizing the rehabilitation of people with a changed ability to work.

¹ The SAO's audit planning system makes a distinction between direct and indirect human resource need. Direct auditor days cover the working time used by auditors who participate in on-site audits, and also the working time used for the development and up-dating of the related audit manuals, guides, for the choice of audit topics, issues and for the professional contribution to IT-projects, while the indirect auditor days cover the working time used for managerial, quality assurance, legal, IT and administrative work, which support the activities of on-site audit, reporting and publication.

As completion of a programme co-funded by the European Union, a separate paper will be developed by the Institute on corruption risks and possible techniques to detect them.

In 2007 the Institute developed for the first time a paper to assess some issues of the macroeconomic soundness of the annual budget appropriation bill. Considering that this paper was well received by the Members of Parliament, the Institute will analyze also the 2009 budget appropriation bill for its macroeconomic soundness, with making use of the remarks to be made by MPs and the government. To achieve this goal, the Institute will develop impact studies and risk analysis on factors that affect the ability to implement the budget to the most.

LIST OF AUDIT SUBJECTS

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01 Financial regularity audit on the execution of the 2007 budget of the Republic of Hungary

AUDITS RELATED TO THE CENTRAL BUDGET

02 Performance audit on the utilization of financial resources disbursed for the funding of public education tasks under the Ministry of Education and Culture Chapter

03 Comprehensive audit on the institutional system of the central budget

04 Performance audit on the collection system of gambling tax due to the budget

05 Comprehensive audit on the operation of the Ministry of Finance Chapter

06 Comprehensive audit on the system of chapter-managed appropriations

07 Comprehensive audit on the modernization of the Hungarian central public administration system

08 Comprehensive audit on the operation of the National Development Agency

AUDITS RELATED TO LOCAL AND MINORITY LOCAL GOVERNMENTS

09 Comprehensive and other regularity audit on the financial management system of local governments in 2007

10 Performance audit on the effectiveness of the utilization of financial resources spent on the Vocational School Development Programme

11 Performance audit on the role of multifunctional small regional of local governments in providing public services and implementing regional development tasks

12 Performance audit on the priority investment projects of local governments

13 Performance audit on the utilization of funds spent on nursing and rehabilitation by hospitals owned by local governments and residential social institutions

AUDITS RELATED TO BOTH THE CENTRAL BUDGET AND THE LOCAL GOVERNMENTS

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17 Comprehensive audit on the modernization of rail transport

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- 20 Performance audit on motorway investment projects completed in 2007
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OTHER AUDITS

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II. AUDITS STARTING IN 2008 AND SCHEDULED TO BE COMPLETED IN 2008
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- 37 Comprehensive audit on the financial management system of the local government of Budapest District V
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- 39 Comprehensive audit on the financial management system of the local government of Budapest District II
- 40 Comprehensive audit on the financial management system of the local government of Budapest District X

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- 43 Review of the local government decree on sharing the revenues to be divided between the Budapest Municipality and the Budapest district local governments in 2008

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- 45 Comprehensive audit on the operation of the Hungarian Privatization and State Holding Company in 2007 and on its activities connected with the execution of the central budget

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- 50 Financial regularity audit on the legality of the financial management of the FIDESZ-Hungarian Civic Union in the years of 2006-2007
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III. AUDITS STARTING IN 2008 AND CARRIED OVER TO 2009

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