



STATE AUDIT
OFFICE OF HUNGARY

2009 Audit Plan of the State Audit Office of Hungary

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Approved by

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President

INTRODUCTION

I

By taking into consideration the respective legal regulations and resolutions of the National Assembly and with the assistance of its own professional circular the State Audit Office of Hungary (SAO) defines its annual audit plan that serves as the basis of the institution's annual auditing activities. The President of the institution approves the annual audit plan and ensures the implementation thereof.

The audit plan collects all the audit tasks concerning the subject year and presents them divided into three, basically chronological groups; thus audits carried over from 2008 and will be completed in 2009, audits to be started and completed in 2009, and finally audits to be started in 2009 and carried over to 2010. Within these major groups the audit plan classifies the individual subjects according to audit fields.

As a consequence of the 2008 audit plan, close to 22 audits determine one third of the utilisation of the 2009 capacities. The audits carried over from year to year represent closely the same proportion, basically due to the continuity of the audit work.

The planning document also provides outlook for two subsequent years by scheduling audit tasks for 2010 and 2011, and contains a thematic outlook plan as well. The latter is sorting audits around theme groups, partly to facilitate that the audits would map out, as fully as possible, the individual specific fields, partly to make it possible that the Research Institute of the SAO would contribute to the identification of the problems of the given fields by its researches.

II

The annual and biennial audits prescribed by law, basically determine the compilation of the plan and absorb 44% of the annual audit capacities – similarly to the previous years. Audits to be carried out according to the decision of the SAO President use 30% of the available capacity. In 2009 26% of the SAO capacities will be used for meeting other, regular audit obligations. Having regard to the obligatory tasks the above proportions have not changed much over the years.

Annual and biennial audit tasks: giving an opinion on and auditing the budget appropriation bill and the final accounts bill; within this auditing the utilisation and settlement of accounts relevant to subsidies allocated to local governments from the central budget; auditing the national news agency, the Hungarian State Holding Company, the political parties and their foundations, as well as reviewing the revenues due to and shared by the Budapest Municipality and the Budapest district local governments.

Regular audit obligations: audit of the chapters of the central budget, of the separated state funds, the social security funds and the financial management of local governments.

In capacity management the annual capacity needs of auditing the execution of the central budget (35%), respectively of auditing the financial management system of local governments (22%) continue remaining dominant elements.

In the course of auditing the execution of the central budget the SAO qualifies the financial statements according to its gradually developed methodology that was elaborated in harmony with the internationally accepted good practices. In case of the last final accounts 93% of the total expenditures of the central budget were qualified.

The audit was full-scale in case of the so-called constitutional and single-institutional chapters, the budgetary titles having chapter authority, further 6 chapters, the accounting of direct revenues and expenditures of the central budget and covered all management titles and chapter-managed appropriations.

Regularity audit in case of 5 chapters became comprehensive when the chapter auditors – according to the SAO methodology – qualified the financial statements of the supervised institutions based on an agreement with the ministries, respectively in a specific circle of institutions the SAO carried out the regularity audits.

We strive to continue the expansion of regularity audits and finally increase to 100% the covered proportion of total expenditures of the central budget. The move that can be realized in 2009 in this direction is basically determined from the aspect of resources in the present status of the central budget. Our future goal is to qualify the reliability of the central budget as a whole, too. The planned amendment of the Act on Public Finances is a step ahead on this road as the amendment recommends prescribing that in case of the social security funds and of the separated state funds the audit should be performed according to the SAO methodology.

Recently the National Assembly passed the bill on economical public financial management and budgetary responsibility, which has also provided about the creation of the Budget Council, its tasks and scope of authority. The regulatory system takes effect gradually, by considering the preparations for the individual new tasks, but certain regulations will be enforced already at the time of preparing the 2010 budget appropriation bill. Accordingly, our 2009 audit plan

reflects the adjustment to the future legal changes, thus the formulation of our opinion on the budget appropriation bill will reflect the prescriptions of the renewed programme. The focal point of our opinion will shift from the full-scale planning - that considers the comprehensive review of all the chapters - to the judging of background calculations concerning the substantiation of appropriations, as well as to that of the effects resulting from the modifications to the system of public tasks and regulators. The enactment makes it necessary to develop the conditions and forms of cooperation between the new legal institution, the Budget Council and the SAO. The two institutions would work in a division of labour and the Budget Council examines the integrated macroeconomic nature of the central budget.

In the course of determining the 2009 audit objective of the financial management of local governments the SAO took into consideration the modernization task included in the Parliamentary Resolution 47/2006 (X.27.) that is also confirmed by the SAO Strategy for 2006–2010. While engaged in on-site audits the SAO is continuously paying special attention to the regularity audit of local governments with considerable budget and assets (local governments of counties, towns with county status, the capital city of Budapest, as well as Budapest districts and towns). The SAO complements these regularity audits by performance audit elements, as well as the evaluation of the claiming and utilisation order of EU funds. The audit objective is the evaluation of the established and operating internal control system; the revealing of the level and quality of the budgetary planning, executing and control tasks; that of the management of internal and external risks jeopardising the fulfilment of these tasks, as well as the of the preparedness for the reception and the effectiveness of the utilisation of EU subsidies. The standardized audit programme ensures the implementation of the goals formulated by the earlier referred parliamentary resolution at the given sites, as well as the possibility of being able to give annually a summarizing, generalized evaluation for the National Assembly about the financial management of the local governments, by taking into consideration the findings of individual SAO audit reports made on the financial management of local governments of counties, towns with county status and the Budapest districts, as well as of the auditors' report on the management of local governments of villages and large villages – the latter based on a joint but narrower audit programme.

Audits planned on the basis of the decision of the SAO President are being carried out according to the performance audit methodology since the SAO can find answers to topical issues emerging in relation to the sensitive fields of utilising public funds that the society and the public opinion are most interested in by using this type of audit.

Accommodating contemporary international trends in 2009, apart from performance audits based on the so-called normative approach and focusing on the results and the efficiency of the implementation thereof, the so-called system

audits¹ utilising a problem centred approach have also appeared as a new element. In case of the latter shortcomings and problems indicate the starting point of the audit instead of the audit result. (Among the former method the audit portfolio of the Hungarian Tax and Financial Control Administration and the audit of local taxes will be started in 2009, while audits according to the latter method will be launched this year in the field of the utilisation of employment-related data services and the system of public tasks).

III

The annual audit plan is the fundamental tool of implementing the SAO strategy. Audits presented in the plan can be connected to the following strategic goals and tasks:

1. Audits aiming at the transparent and regular operation of public finances, strengthening budget security and responsibility:

Audits on the final accounts and the budget, audits on the operation of the housing subsidy system, of the treasury system, of the system of separated state funds, audits on the operation of the organizational system performing public tasks related to the clearway network.

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

Audits on solid waste management, on significant sewage treatment projects financed by EU and national resources, on irregularities, debts and claims management processes relevant to the utilisation of EU funds.

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

Audits on PPP development projects supported in the framework of the Sports XXI Facility Development Programme, on motorway investment projects completed in 2008.

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

¹ The XIX INTOSAI Congress (Mexico City, 2007) endorsed the guidelines related to the use of performance audits (Implementation Guidelines for Performance Auditing). This document is summarizing the basic characteristics of system auditing and SAO also took them into consideration when elaborating its methodological guidelines.

Audits on the organizational and human resources systems of performing public tasks, on the utilisation of employers' data services, on the outsourcing of individual hospital activities, on the development of the system of emergency medical services, on the management of the national audiovisual assets, on the utilisation of funds provided for one-day surgery services, on the implementation of the Higher Education Act, as well as on the enforcement of efficiency and effectiveness in the system of local taxes, and on the system of conditions and role of adult education in meeting the workforce needs of the economy.

IV

The 2009 audit plan contains 69 audits, while the number of audit reports we plan to publish in the current year is 53. To implement the audit plan 79,000 auditor days² are scheduled for 2009. This is made up of 56,000 direct auditor days covered by the SAO audit plan, and additionally of more than 3,000 auditor days covered by the activity plan of the institution but requiring and tying up audit capacities necessary for the implementation of other task assignments, and finally of more than 20,000 indirect auditor days. The cost of a single auditor day amounts to HUF 112,000 (projected to a direct auditor day). This per-unit cost has been practically the same in the past few years.

When compiling the audit plan, with regard to the expected budgetary restrictions, the SAO could not count on expanding the capacities, neither in respect of the direct, nor of the indirect numbers. The costs of employing the services of external experts cannot be increased.

The audit plan does not contain the capacity needs of those ad hoc tasks (for example the countersigning of contracts relevant to borrowings of the central budget) that are done by the SAO in connection with audits. Furthermore, the audit plan does not contain either the capacity required by the enrichment audits of government executives, since the legal definition of the detailed tasks is in the preparatory phase. The establishment of the framework of the execution can be completed only upon finishing these works.

Similarly to the former years the SAO did not have the opportunity to plan spare human resources for 2009, 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

² The SAO's audit planning system makes a distinction between direct and indirect human resource need. Direct auditor days cover on the one hand the working time used by auditors participating in on-site audits, on the other hand the working time used for the development and updating of the related audit manuals, guides, for the choice of audit topics, issues and for the professional contribution to IT projects, etc., while indirect auditor days cover the working time used for managerial, quality assurance, legal, IT and administrative works, which support the activities of on-site audit, reporting and publication.

amended through postponing and cancelling audits. The SAO's activity-based-budget, as submitted to the National Assembly, is built on this set of audit tasks.

V

As of 1 January 2009 the Research and Development Institute of the SAO will continue its work as the Research Institute of the SAO (further the Institute). In the future, the SAO's own internal organizational units will be responsible for the methodological development tasks. When compiling the research programmes of the Institute for 2009 it was considered as an important aspect that the Institute should not carry out researches that would otherwise belong to the responsibility of the newly established Budget Council. Utilizing the SAO's audit experiences the Institute analyzes the efficiency of the utilisation of public funds in certain specific fields of the public sector by applying scientific research methods instead of audit methods. Moreover, it prepares studies aiming at the comprehensive modernization of public finance regulations and assisting the solutions of backlog tasks. In 2009 the Institute plans to publish studies in the following fields:

- Tension points of the financial system of local governments;
- Social-economic efficiency of the support system for disabled persons;
- The competitiveness of the public sector;
- “Sustainable development, affordable state” (The government's role in the global economy of the 21st century);
- Concept for the renewal of the national economic planning system;
- Efficiency of adult education systems in international comparison;
- Harmony of local governmental tasks and resources.

LIST OF AUDIT SUBJECTS

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01 Financial regularity audit on the execution of the 2008 budget of the Republic of Hungary

AUDITS RELATED TO THE CENTRAL BUDGET

02 Comprehensive audit on the operation of the Hungarian Customs and Finance Guard

03 Performance audit on the efficiency of the housing subsidy system

04 Performance (systems) audit on the implementation of the Act on Higher Education

05 Comprehensive audit on the operation of the treasury system

06 Comprehensive audit on the operation of the Chapter 'Ministry of Defence'

AUDITS RELATED TO LOCAL AND MINORITY LOCAL GOVERNMENTS

07 Comprehensive audit on the financial management system of local governments in 2008

08 Performance audit on the utilization of resources spent for the establishment and development of emergency medical services

09 Performance audit on the Budapest Municipality's activity to set the amount of fees chargeable for official proceedings

10 Performance audit on the implementation of PPP development projects of local governments supported in the framework of the Sport XXI Facility Development Programme and on the projects' impact on the services provided by local governments

11 Performance audit on the development and maintenance of green space owned by local governments

AUDITS RELATED TO THE SEPARATED STATE FUNDS

12 Performance (systems) audit on the system of the separated state funds and on the achievement of objectives set in the calls for proposals

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- 21 Performance audit on motorway investment projects completed in 2008
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II. AUDITS STARTING AND SCHEDULED TO BE COMPLETED IN 2009
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- 23 Opinion on the 2010 budget of the Republic of Hungary

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