



STATE AUDIT
OFFICE OF HUNGARY

2010 Audit Plan of the State Audit Office of Hungary

A-039-001/2009

7 December 2009

Approved by

Dr. Árpád Kovács
President

INTRODUCTION

I.

The State Audit Office of Hungary (SAO) carries out its audit activities on the basis of its audit plan, which is approved by the President of the institution and developed annually by taking into consideration the relevant legal regulations and parliamentary resolutions, as well as with the assistance of a professional circular supporting the planning process.

Due to the continuous nature of the audit work, an annual audit plan is closely related to the annual audit plan of the preceding year through the issues, points determined by the latter. For the same reason, the annual audit plan itself is posing some constraints for the year following the subject year.

The planning document includes all audit tasks affecting the subject year: thus the audits carried over from 2009 and to be completed in 2010, the audits to be started and completed in 2010, and also the audits to be started in 2010 and carried over to 2011. Within these major groups, the audit plan presents the individual audit subjects in a breakdown by audit fields.

The planning document schedules audit tasks for two subsequent years, 2010 and 2011, and provides also a thematic outlook plan. The latter outlook assigns the future audit tasks to groups of audit subjects and aims at achieving an, as complete as possible, audit coverage of high-priority fields and at providing basis for the Research Institute of the SAO for identifying problems of the individual fields.

II.

The annual and biannual audits prescribed by law basically determine the compilation of the plan and absorb 39% of the annual audit capacities. Audits to be carried out on the basis of decisions of the SAO President use 29% of the available capacity. In 2010, 32% of the SAO capacities will be used for fulfilling other regular audit obligations. The above proportions have been prevailing for years in respect of the capacity allocation.

Annual and biannual audit tasks: giving an opinion on the budget appropriation bill and auditing the final accounts bill; 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 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 terms of capacity management the annual capacity needs of auditing the execution of the budget (29%) and the financial management systems of local governments (25%) continue to be dominant elements.

In the course of auditing the execution of the budget, the SAO qualifies the financial statements in accordance with its gradually developed methodology that was elaborated in line with international good practices. In case of the last final accounts, 93% of the total expenditures of the central budget were qualified from reliability point of view.

The audit was full-scale in case of the financial statements of the so-called constitutional and single-institutional chapters; of the budgetary titles having chapter authority; of 6 chapters; of each chapters' management titles and chapter-managed appropriations; and also in case of the accounts of the central budget's centralized revenues and expenditures. The financial regularity audit in case of three chapters became comprehensive due to the contribution made by the chapter auditors.

The SAO strives to continue the expansion of the proportion of total expenditures of the central budget that is covered by financial regularity audits. The move that can be realized in 2010 in this direction is not supported from the aspect of resources due to the present status of the budget. Therefore, regarding the proportion of total expenditures of the central budget covered by financial regularity audits it may come to stagnation or relapse. This possible relapse may be mitigated by the amendments of the Act on Public Finances, which will enter into force on 1 January 2010 and require that the financial statements of the social security funds and the separated state funds should be audited by accountants according to the methodology developed by the SAO.

In compliance with changes deriving from the Act on Economical Public Financial Management and Fiscal Responsibility (Act LXXV of 2008), the SAO provides its opinion on the annual budget appropriation bill on the basis of a renewed audit programme. The focal point of the opinion shifts from the full-scale review of budgeting activities - covering all central budget chapters - to the judging of the background calculations designed to provide a solid foundation for the appropriations, as well as to that of the effects resulting from the modifications to the system of public tasks and regulations.

Upon request, the plan was expanded by several proposed audit subjects, each posing a sensitive issue for the society. The examination of the reasons regarding the failure rate in case of citizens' donation of 1% of their respective personal income tax came up not only at several parliamentary committee meetings, but was requested also by the Prime Minister. This audit poses an expansion of the initial annual audit plan and will be implemented as part of the SAO audit on the 2009 final accounts. Several audit tasks were included in the 2010 Audit Plan upon external proposals, such as the audit on the impacts of actions taken against air pollution and in the field of climate policy, on the development project Metro Line 4 and on the state subsidies for and financial management of theatres.

Regarding the financial management system of local governments, the SAO carries out its relevant audit activities on local governments of high-priority in accordance with the Parliamentary Resolution 47/2006 (X. 27.). The objective of the audits is - by using a system approach - the evaluation of the budgeting, budget implementation and audit activities, of the established and operating internal management and control systems, as well as the examination of the arrangements, conditions necessary for the financial balance of local governments. The standardised audit programme of such audits ensures that the SAO provides the National Assembly annually with an overall assessment about the financial management of local governments by taking into account the findings of individual SAO reports prepared on the audit of local governments of high-priority and that of the related auditor's reports prepared on the audit of villages and large villages – the latter based on a narrower audit programme.

Audits planned on the basis of the decision of the SAO President are being carried out by using performance audit methods. In the course of its audits, the SAO increasingly strives to evaluate the efficiency of the utilisation of resources and to monitor resources (especially in case of EU subsidies and public procurements) up to the end user. The so-called systems audits, which belong to the performance audit type and utilise a problem centred approach, continue to be carried out in 2010. (In 2010 systems audits are going to be carried out on the system of delivering public tasks, on the system of budgeting, and on the convergence of regions.)

III.

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

- a) Audits aiming at the transparent and regular operation of public finances and strengthening budget security and responsibility:

Audits on the final accounts (on the execution of the budget) and the budget appropriation bill; the system of budgeting in the field of the central budget; the financial management system of local governments; the realization of revenues from the motor vehicle registration tax payable to the central budget; the system of local taxes; the operation of the National Cultural Fund; and the activities of the Hungarian State Holding Company.

- b) Audits aiming at the full and purpose oriented utilisation of available EU funds and the protection of EU financial interests:

Audits on the implementation of the National Development Plan; the development project Metro Line 4; the processes of managing irregularities, debts and financial claims relevant to the utilisation of EU funds; the utilisation of funds used for the convergence of regions.

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

Audits on the operation of the Private Pensions Guarantee Fund; the infrastructure development programme of the higher education (with PPPs); the utilisation of resources provided to non-profit organizations involved in providing assistance to the disabled persons; motorway development projects completed in 2009 and 2010; the system of development grants provided to local governments.

- d) Audits aiming at the efficient and effective delivery of public tasks, the restructuring of the system of public services, the professional fairness of the restructuring and renewing measures:

Audits on the organizational and human resource management systems of delivering public tasks; the e-government of public services and the utilization of the relevant funds; the operation of and financial framework for general medical practice services; utilization of funds provided for one-day surgery services; impacts of actions taken against air pollution and in the field of climate policy; the protection of waters and the performance of water management tasks.

IV.

The 2010 Audit Plan contains 65 audit tasks, and the SAO plans to publish 44 audit reports in the subject year. To implement the audit tasks 75,000 auditor days are scheduled for 2010. This is made up of nearly 53,000 direct auditor days covered by the SAO annual 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 19,000 indirect auditor days¹. The cost of a single auditor day amounts to HUF 107,000 (projected to one direct auditor day).

When developing the annual audit plan, with regard to the budgetary restrictions, the SAO had to calculate with a reduction in audit capacities. Compared to the headcount approved by the National Assembly, the plan is

¹ The SAO 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 selection 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 activities, which support the activities of on-site audit, report drafting and publication.

based on a number, which is 10% lower. Resources are not available for the employment of external experts. Therefore, the SAO can satisfy the human resource need necessary for such activities by the internal reorganisation of resources.

There has been no increase for years in the human resources available for audit tasks. Therefore, in 2010 the SAO continues its former practice of not planning any spare human resources for audits. Thus, if due to amendments in legal regulations or for other reasons additional audit tasks are arising beyond the ones listed in the annual audit plan, the necessary human resources can be reorganised only by amending the audit plan. In practical terms, it could mean the postponing or cancelling of other audit tasks. The SAO activity-based budget, as submitted to the National assembly, relies on the set of the planned audit tasks.

As a matter of fact, the SAO strives to take into account those special requests and approaches that fit into the scope of activities of the institution and also into the scope of the audits potentially addressing the concerned field.

V.

The Research Institute of the SAO (RI) is carrying out its work on the basis of its individual research plan. When compiling the research plan, the RI takes into account the set of audit subjects in order to present selected areas of the utilisation of public funds in their wider context on the basis of the audit results gained in the different fields, generalized and supplemented with foreign and national data and research results.

Utilising the audit experiences of the SAO, the studies of the RI analyze the efficiency of the utilisation of public funds in specific fields of the public sector by applying scientific research methods instead of audit methods. In 2010, the Institute plans to publish studies in the following fields:

- > Developments in the financial situation of local governments,
- > Concept for the renewal of the national economic planning,
- > Theoretical models and real practices of public financing of cultural services in specific areas of the cultural sector,
- > Study on the regional and national efficiency of state subsidies provided for tourism developments,
- > Assessment framework for public tasks,
- > Interrelations between the obligation to deliver compulsory public tasks, the available assets and budgetary resources in the local government sector,
- > Corruption risks of the public sector.

LIST OF AUDIT SUBJECTS

(table of contents, based on the serial number of the audit subjects)

I. AUDITS STARTED IN 2009 AND CARRIED OVER TO 2010

AUDITS RELATED TO THE EXECUTION OF THE BUDGET AND TO THE OPINION ON BUDGET APPROPRIATIONS

01 The financial regularity audit on the execution of the 2009 budget of the Republic of Hungary

AUDITS RELATED TO LOCAL AND MINORITY LOCAL GOVERNMENTS

02 Comprehensive audit on the financial management system of local governments in 2009

03 Performance audit on the enforcement of efficiency and effectiveness in the system of local taxes

04 Performance audit on the system of requirements, effectiveness and role of adult education in meeting the workforce needs of the economy

AUDITS RELATED TO BOTH THE CENTRAL BUDGET AND THE LOCAL GOVERNMENTS

05 Performance audit on the organizational and human resources system of performing public tasks

06 Performance audit of the impacts of state and local governmental measures taken for energy management, with special regard to the impacts of investments serving energy rationalization

AUDITS RELATED TO THE SEPARATED STATE FUNDS

07 Performance (systems) audit on the operation of the National Cultural Fund

AUDITS RELATED TO THE SOCIAL SECURITY FUNDS

08 Performance audit on organ transplantation, donation of organs and alternative medicine

AUDITS RELATED TO THE ENTREPRENEURIAL AND TREASURY ASSETS OF THE STATE

09 Performance (systems) audit on the financial management of MTI Hungarian News Agency Corp in 2009

10 Performance (systems) audit on the operation of the Hungarian State Holding Company in 2009

AUDITS RELATED TO FOREIGN FINANCIAL ASSISTANCE

11 Performance audit on the processes of managing irregularities, debts and financial claims relevant to the utilization of EU funds

AUDITS RELATED TO ORGANIZATIONS OUTSIDE PUBLIC FINANCES

12 Comprehensive audit on the operation of the National Bank of Hungary in 2009

13 Performance audit on the utilisation of funds provided for one-day surgery services

14 Performance (systems) audit on the operation of the organizational system performing public tasks related to the clearway network

II. AUDITS STARTING AND SCHEDULED TO BE COMPLETED IN 2010
--

AUDITS RELATED TO THE EXECUTION OF THE BUDGET AND TO THE OPINION ON BUDGET APPROPRIATIONS

15 Opinion on the 2011 budget of the Republic of Hungary

AUDITS RELATED TO THE CENTRAL BUDGET

16 Performance (systems) audit on the protection of waters and the performance of water management tasks

AUDITS RELATED TO LOCAL AND MINORITY LOCAL GOVERNMENTS

17 Comprehensive audit on the financial management system of the local government of Budapest District XV

18 Comprehensive audit on the financial management system of the local government of Budapest District III

19 Comprehensive audit on the financial management system of the local government of Budapest District VIII

20 Comprehensive audit on the financial management system of the local government of Budapest District XI

21 Comprehensive audit on the financial management system of the local government of Budapest District XX

22 Comprehensive audit on the financial management system of the local government of town Pécs with county status

23 Comprehensive audit on the financial management system of the local government of Békés County

24 Comprehensive audit on the financial management system of the local government of town Szeged with county status

25 Comprehensive audit on the financial management system of the local government of town Dunaújváros with county status

26 Comprehensive audit on the financial management system of the local government of Győr-Moson-Sopron County

27 Comprehensive audit on the financial management system of the local government of town Szolnok with county status

28 Comprehensive audit on the financial management system of the local government of Nógrád County

29 Comprehensive audit on the financial management system of the local government of town Kaposvár with county status

30 Comprehensive audit on the financial management system of the local government of Vas County

31 Comprehensive audit on the financial management system of the local government of town Veszprém with county status

32 Comprehensive audit on the financial management system of the local government of Zala County

33 Review of the local government decree on revenues due to and shared by the Budapest Municipality and the Budapest district local governments in 2010

34 Other regularity audit on the operation of internal controls established in the financial management of Budapest Municipality, Phase IV

AUDITS RELATED TO BOTH THE CENTRAL BUDGET AND THE LOCAL GOVERNMENTS

- 35 Performance audit on the development project Metro Line 4
- 36 Performance audit on the state subsidies for and financial management of theatres

AUDITS RELATED TO ORGANIZATIONS OUTSIDE PUBLIC FINANCES

- 37 Other regularity audit on the utilisation of non-normative state subsidies and of assets provided free of charge to non-profit organizations involved in providing assistance to the disabled persons
- 38 Financial regularity audit on the legality of the financial management of the Hungarian Democratic Forum in 2008-2009
- 39 Financial regularity audit on the legality of the financial management of the Christian Democratic People's Party in 2008-2009
- 40 Comprehensive audit on operation of the Private Pensions Guarantee Fund
- 41 Financial regularity audit on the legality of the financial management of the Antall József Foundation in 2008-2009
- 42 Financial regularity audit on the legality of the financial management of the István Barankovics Foundation in 2008-2009
- 43 Other regularity audit on the proper utilisation of public funds by the 'Hálózat' - Foundation for Budapest Fee Payers and Defaulting Payers

OTHER AUDITS

- 44 Other regularity audit on the accounting for funds utilised for the European Parliament election held on 7 June 2009

III. AUDITS STARTING IN 2010 AND CARRIED OVER TO 2011
--

AUDITS RELATED TO THE EXECUTION OF THE BUDGET AND TO THE OPINION ON BUDGET APPROPRIATIONS

- 45 Financial regularity audit on the execution of the 2010 budget of the Republic of Hungary

AUDITS RELATED TO THE CENTRAL BUDGET

- 46 Performance (systems) audit on the operation of the Ministry of Education and Culture
- 47 Evaluation of the system for the control of occupational health and safety
- 48 Performance audit on the effective and efficient realization of revenues from the motor vehicle registration tax payable to the central budget
- 49 Performance (systems) audit on the impacts of actions taken against air pollution and in the field of climate policy
- 50 Performance (systems) audit on the system of budgeting in the field of the central budget

AUDITS RELATED TO LOCAL AND MINORITY LOCAL GOVERNMENTS

- 51 Performance (systems) audit on the review system of the Treasury for claiming of and accounting for normative contributions and normative earmarked subsidies due to local governments and multi-purpose micro-regional associations
- 52 Comprehensive audit on the financial management system of local governments in 2010

53 Performance (systems) audit on the utilization of funds used for the convergence of regions

AUDITS RELATED TO BOTH THE CENTRAL BUDGET AND THE LOCAL GOVERNMENTS

54 Performance (systems) audit on the system of development grants provided to local governments

AUDITS RELATED TO THE SOCIAL SECURITY FUNDS

55 Performance audit on the operation of and financial framework for general medical practice services

AUDITS RELATED TO THE ENTREPRENEURIAL AND TREASURY ASSETS OF THE STATE

56 Performance audit on the infrastructure development programme of the higher education

57 Performance (systems) audit on the activities of the Hungarian State Holding Company in 2010

58 Performance (systems) audit on the financial management of the MTI Hungarian News Agency Corp in 2010

AUDITS RELATED TO FOREIGN FINANCIAL ASSISTANCE

59 Performance audit on the implementation of the National Development Plan

AUDITS RELATED TO ORGANIZATIONS OUTSIDE PUBLIC FINANCES

60 Performance audit on the motorway development projects completed in 2009 and 2010 and their financial processes

61 Financial regularity audit on the legality of the financial management of FIDESZ - Hungarian Civic Union in 2008-2009

62 Other regularity audit on the accounting for funds spent on the 2010 parliamentary elections at nominating organizations and independent candidates

63 Comprehensive audit on the operation of the National Bank of Hungary in 2010

64 Financial regularity audit on the legality of the financial management of the Foundation for a Civic Hungary in 2008-2009

OTHER AUDITS

65 Performance (systems) audit on the e-government of public services and the utilization of the relevant funds