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STATE AUDIT  
OFFICE OF HUNGARY

2011 Audit Plan of the State Audit Office of Hungary

A-037-007/2010

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Approved by

László Domokos  
President



## **INTRODUCTION**

### **I.**

The State Audit Office of Hungary (SAO) carries out its audit activities on the basis of its audit plan approved by its President.

Parallel to the elaboration of the new medium-term strategy of the SAO, and in contrast to earlier practice, the 2011 Audit Plan was compiled during a public, bottom-up planning process. Making the audit subjects compete was the most important element of the new planning process. During this process, the audit subjects to be included in the plan were selected in a competition consisting of several rounds.

The head of each organisational unit was entitled to submit a subject proposal. In addition, the President of the SAO also requested the parliamentary committees to contribute to the compilation of the annual audit plan with their proposals. The applications were submitted and evaluated according to given criteria. The large number of personnel participating in the assessment ensured the balanced consideration of the evaluation criteria.

The total number of subject proposals received for the first and second rounds of the competition was around 170. Following the evaluation, one third of these proposals qualified for the final evaluation, where the senior management of the SAO – taking into account further aspects and the existing capacity constraints – selected from the best audit proposals those that were finally included in the planned audits.

The competition of subject proposals resulted in the formulation of a kind of ranking according to implementation, timeliness and risks, and not in a quality ranking. At the same time it also means that the audit subject proposals not included in the 2011 plan may serve as a good basis for the compilation of the plans of coming years.

Of course, the competition could only aim at the statutory tasks that are to be performed by the SAO in addition to those carried out compulsorily, on a regular basis (audit on the final accounts, the budget bill, property management organisations, the national news agency and parties).

Following from the continuous nature of the audit work, the annual audit plans are closely related, to the extent of the 'determinations' included in them. It means that upon compiling a new audit plan, the resources needed in the subject year to perform the audits started prior to the subject year represent a constraint to some extent.

### **II.**

The planning document includes all audit assignments affecting the subject year: thus the audits carried over from 2010 and to be completed in 2011, the audits to be started and completed in 2011, and also the audits to be started in 2011 and planned to be completed in 2012. Within these major groups, the audit plan presents the individual audit subjects in a breakdown by audit fields.

In conformity with the SAO's medium-term strategy, the audit on the final accounts, to which significant resources are devoted in the 2011 audit plan as well, continues to be a primary task. In line with the strategy, in order to perform the task in a more efficient and effective manner, the methodological development of the final accounts audit has started, with an aim to create an audit model different from the earlier one in terms of its content and procedure.

Similarly considerable resources are committed to the audit on the financial management of local governments. This means the completion of audits in progress as well as performing audits of a new approach, evaluating the financial position of local governments. The audit on the financial management system of local governments in 2011 is planned to be performed with a different selection method and renewed content, compared to earlier years. Audit sites will be selected taking into consideration the financial and economic situation and operational risks of local governments. As a novelty, the scope of the audit will include the detection of internal and external circumstances that play a role in the increase of the risks of financial management, the assessment of the financial position and the enforcement of the principles of effective and expedient financial management upon making and implementing decisions concerning property management as well as the enforcement of the owner's interests at business associations owned by local governments.

In order to make the processes of public finances transparent, several audits will be launched to evaluate the utilisation of funds spent on tasks financed from more than one sources as well as the coordination of decisions and objectives. For example, these audits will cover the utilisation of the vocational training contribution, the creation and preservation of jobs funded from national and EU sources, the system of public employment and employment-oriented training programmes, the performance of tasks in and the funding of public education as well as the defence systems related to natural disasters.

The various areas of the performance of state tasks such as public health, environmental protection and regional development are evaluated by performance audits with a manifold approach, breaking the areas down into parts.

The activity related to the exercise of proprietary rights over state property will be audited annually. In addition, among state-owned enterprises, the audits on the financial management of the Hungarian Post Co. Ltd. and on the state subsidy system of rail transport will start next year. Within the framework of the audit on the property increasing activity of the state, in 2011 the audit on the motorway projects completed in 2009 and 2010 and on the development grants provided to local governments will be completed, the follow-up audit of priority projects implemented in PPP schemes will be performed, and the investment projects based on government decision and financed by the European Union since 2007 will be evaluated.

Coordinated by the Netherlands Court of Audit, within the framework of an international parallel audit, the SAO participates in the audit on the enforcement of EU regulations on waste shipment. The objective of the parallel audit is to facilitate the observance of rules, to create its necessary conditions and to increase the efficiency of the system.

By the audit on the utilisation of subsidies granted outside public finances, we intend to foster the spending of public funds on valuable purposes and the increasing of their transparency, the implementation of which is a priority interest of society. This is the aim

of the audit on the regularity and effectiveness of the property management of public foundations set up by the Government as well as on the effect and utilisation of the support provided to the National Civil Fund.

In line with the strategy of the SAO, the priority task of the coming years – in order to perform the tasks efficiently and at a high level of quality – is the continuous adaptation of international good practices as well as the elaboration and further development of a methodology that matches the objectives and tasks. Moreover, we will attempt to implement the measurement and evaluation of the effect of the audits and to elaborate efficiency indicators for the organisation's own operation.

### **III.**

The annual and biannual audits required by law basically define the compilation of the plan, and absorb 48% of the annual audit capacities.

The 2011 audit plan consists of 56 subjects. The number of SAO reports planned to be published in the subject year cannot be precisely determined in advance owing to the selection through a new type of sampling applied to the audit on the financial management system of local governments and owing to the renewal of the audit approach to the final accounts. In 2011, the resource requirements to complete the audit assignments consist of more than 54 thousand direct auditor days included in the audit plan and calculated in advance as a mean figure as well as nearly 3 thousand direct auditor days included in the action plan of the institution and required for methodological and other tasks and also approximately 18 thousand indirect auditor days<sup>1</sup>.

For 2011, the SAO has not planned any spare human resources for audits. However, in addition to the audits set forth in this planning document, the SAO is ready to perform any extraordinary audit assignment allowed to be carried out by law. As a part of the audit plan, a complementary list of subjects serving as the basis for continuous planning has also been prepared in order to allow the changing organisation of the SAO to exploit its audit resources as best as possible even during the renewal, and to enable it to adjust to the changes in the environment. The complementary list contains audit subjects that received favourable qualification and proved to be valuable during the competition, but the balance of resources determined on the basis of the preliminary calculations did not provide for the coverage of their implementation.

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<sup>1</sup> The SAO audit planning system makes a distinction between direct and indirect human resource needs. Direct auditor days cover the working time used by auditors participating in on-site audits as well as the development and updating of the related methodologies, the selection of audit subjects and 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 audits, report drafting and publication.

# LIST OF AUDIT SUBJECTS

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

## I. AUDITS STARTED IN 2010 AND CARRIED OVER TO 2011

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

01 Financial regularity audit on the execution of the 2010 budget of the Republic of Hungary

### AUDITS RELATED TO THE CENTRAL BUDGET

02 Performance (systems) audit on the management system and operation of the educational and cultural sector

03 Evaluation of the system for the control of occupational health and safety

04 Performance (systems) audit on the impacts of actions taken against air pollution and in the field of climate policy

### AUDITS RELATED TO LOCAL AND MINORITY LOCAL GOVERNMENTS

05 Performance (systems) audit on the on-site review system of the Treasury for claiming of and accounting for state subsidies and contributions due to local governments and on accounting for normative contributions due to local governments in 2010

06 Performance (systems) audit on the utilisation of funds used for the convergence of regions

07 Comprehensive audit on the financial management system of local governments in 2010

### AUDITS RELATED TO BOTH THE CENTRAL BUDGET AND LOCAL GOVERNMENTS

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

09 Performance (systems) audit on the systems set up to prevent and avert natural disasters and to eliminate their consequences

### AUDITS RELATED TO THE SOCIAL SECURITY FUNDS

10 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

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

12 Performance (systems) audit on the activities related to the exercise of proprietary rights over state property in 2010

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

14 Performance (systems) audit on the financial management of the Hungarian Post Co. Ltd.

### AUDITS RELATED TO FOREIGN FINANCIAL ASSISTANCE

15 Performance audit on the implementation of the National Development Plan

### AUDITS RELATED TO ORGANISATIONS OUTSIDE PUBLIC FINANCES

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

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

- 18 Other regularity audit on the accounting for funds spent on the 2010 parliamentary elections at nominating organisations and independent candidates
- 19 Comprehensive audit on the operation of the National Bank of Hungary in 2010
- 20 Financial regularity audit on the legality of the financial management of the Foundation for a Civic Hungary in 2008-2009
- 21 Evaluation of the effectiveness of the guarantee activity of Garantiqa Creditguarantee Co. Ltd.

#### **OTHER AUDITS**

- 22 Performance (systems) audit on the expediency of the utilisation of the vocational training contribution

<b>II. AUDITS STARTING AND SCHEDULED TO BE COMPLETED IN 2011</b>
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#### **AUDITS RELATED TO THE EXECUTION OF THE BUDGET AND TO THE OPINION ON BUDGET APPROPRIATIONS**

- 23 Opinion on the 2012 budget of the Republic of Hungary

#### **AUDITS RELATED TO LOCAL AND MINORITY LOCAL GOVERNMENTS**

- 24 Analysis of the budgetary and financial equilibrium of the Budapest Municipality; 2011 performance audit on the operation of internal controls established in the budget planning and final accounts preparation processes
- 25 Review of the local government decree on revenues due to and shared by the Budapest Municipality and the Budapest district local governments in 2011
- 26 Performance (systems) audit on the task performance in and financing of public education

#### **AUDITS RELATED TO BOTH THE CENTRAL BUDGET AND THE LOCAL GOVERNMENTS**

- 27 Performance audit on the task performance and financing of local government associations

#### **AUDITS RELATED TO SEPARATED STATE FUNDS**

- 28 Evaluation of the system of subsidies funded from national and EU sources, facilitating the creation and preservation of jobs

#### **AUDITS RELATED TO THE ENTREPRENEURIAL AND TREASURY ASSETS OF THE STATE**

- 29 Performance (systems) audit on the support to business associations in which public higher education institutions have an interest and on the utilisation of their profits

#### **AUDITS RELATED TO FOREIGN FINANCIAL ASSISTANCE**

- 30 Evaluation of the tendering, planning and preparation of investment projects implemented with EU funding since 2007 and based on government decision

#### **AUDITS RELATED TO ORGANISATIONS OUTSIDE PUBLIC FINANCES**

- 31 Performance (systems) audit on the impact of the operation of and assistance to the National Civil Fund on the development of social and civil relations and on the more efficient performance of certain public benefit tasks of priority importance
- 32 Financial regularity audit on the legality of the financial management of the Hungarian Socialist Party in 2009-2010
- 33 Financial regularity audit on the legality of the financial management of the Party Jobbik, The Movement for a Better Hungary in 2009-2010

- 34 Financial regularity audit on the legality of the financial management of the party LMP (Politics Can be Different) in 2009-2010
- 35 Performance (systems) audit on the regularity and effectiveness of the 2009-2010 task performance and property management of public foundations set up by the Government
- 36 Performance (systems) audit on budget subsidies to nonprofit organisations participating in public education
- 37 Other regularity audit on the legality of the financial management of Táncsics Mihály Foundation in 2009-2010
- 38 Financial regularity audit on the accounting for the financial resources allotted to the campaign of mid-term parliamentary election in October 2010 performed at the nominating organisation that obtained representation

**OTHER AUDITS**

- 39 Other regularity audit on the funds utilised for the general, municipal and national, ethnic minority elections in 2010
- 40 Other regularity audit on the enforcement of EU regulations on waste shipment
- 41 Performance audit on the financial management of the Budapest Public Transport Company

<b>III. AUDITS STARTING IN 2011 AND CARRIED OVER TO 2012</b>
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**AUDITS RELATED TO THE EXECUTION OF THE BUDGET AND TO THE OPINION ON BUDGET APPROPRIATIONS**

- 42 Financial regularity audit of the execution of the 2011 budget of the Republic of Hungary

**AUDITS RELATED TO LOCAL AND MINORITY LOCAL GOVERNMENTS**

- 43 Performance audit on the financial management system of local governments in 2011
- 44 Performance audit on the efficiency and effectiveness of the subsidy scheme of public employment and employment-oriented training programmes
- 45 Performance (systems) audit on the utilisation of the funds provided for the operation of hospital care

**AUDITS RELATED TO BOTH THE CENTRAL BUDGET AND THE LOCAL GOVERNMENTS**

- 46 Performance audit on the effectiveness and efficiency of the utilisation of funds used for the implementation of rural development objectives and the strengthening of the role of local communities and its role in the improvement of the quality of life in rural areas

**AUDITS RELATED TO THE SOCIAL SECURITY FUNDS**

- 47 Performance (systems) audit on the operation of the record systems applied in the eligibility scheme of benefits and services provided from the Social Security Funds
- 48 Performance audit on the reorganisation of psychiatric health care

**AUDITS RELATED TO THE ENTREPRENEURIAL AND TREASURY ASSETS OF THE STATE**

- 49 Performance (systems) audit on the state subsidy system of rail transport
- 50 Performance (systems) audit on the financial management of the MTI Hungarian News Agency Corp in 2011
- 51 Performance (systems) audit on the activities related to the exercise of proprietary rights over state property in 2011



## **AUDITS RELATED TO ORGANISATIONS OUTSIDE PUBLIC FINANCES**

- 52 Performance (systems) audit on the regularity and expediency of the financial management of chambers of commerce and industry in 2009-2011, with special attention to the utilisation of subsidies provided from public funds

## **AUDITS RELATED TO PUBLIC DEBT**

- 53 Performance audit on the debt of the central subsystem of public finances and its commitments for periods exceeding one year

## **OTHER AUDITS**

- 54 Performance audit on the implementation and social utilisation of the contracts of cultural and higher education priority projects implemented in PPP schemes
- 55 Performance audit on investment-related tax allowances and subsidies
- 56 Performance (systems) audit on the effectiveness of the measures aimed at the repair and maintenance of state-owned public roads and on the effect of these measures on the condition of state-owned public roads

<b>IV. COMPLEMENTARY (RESERVE) AUDIT TOPICS</b>
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- 1 Audit on the utilisation of agricultural subsidies received from the European Union
- 2 Audit on the harmonisation of the supply of higher education and the labour market needs
- 3 Audit on the utilisation of the central budget subsidies provided for organisations participating in the programme for the elimination of gipsy slums, supporting the integration of the Roma
- 4 Audit on the water management tasks of local governments
- 5 Audit on the operation and financing of the system of social and child protection benefits provided by local governments
- 6 Audit on the investment of the radioactive waste repository of Bábaapát
- 7 Audit on the activities of local governments aiming at the establishment of official utility fees