



STATE AUDIT
OFFICE OF HUNGARY

The Audit Plan of the State Audit Office of Hungary
for the First Half of 2012

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Approved by

László Domokos
President

INTRODUCTION

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

The transformation of the audit planning system of the institution – in line with its strategy – is in progress. Consequently, the selection of audit subjects receives greater emphasis than formerly. The careful selection of subjects is required by the limited resources of SAO, opposed to the broad audit obligations and mandates, which is unique also in international comparison. In the future, audit tasks can be included in the audit plan only following a multi-stage preparation and approval process. Thus, audit items can appear in the audit plan only on the basis of an approved audit programme, and the audit programme has to be substantiated by a preliminary study. Both the preliminary study and the audit programme are approved by the President of SAO after proofreading and the evaluation of a professional body.

Preliminary studies, preparing the decisions on a professional basis, play an important role in the renewing audit planning system as well as in the selection of audit subjects, therefore the preliminary presentation thereof in the planning document is justified. Accordingly, the SAO publishes for the first time the list of preliminary studies planned for substantiating audits in its audit plan. An audit assignment can arise from these preliminary studies in the following half year, as a result of the evaluation and decision-making process.

In line with its strategic objective, the SAO strives to realise the optimum utilisation of resources, and it performs project work. In order to achieve these objectives, the former organisation, which was too fragmented, is under transformation. The auditors carrying out audits are integrated in one organisational unit, and both the management levels and the number of managers were reduced. As a result of the competence-based resource-planning, the increase of the efficiency of the audit process is possible.

The method of rolling planning ensures the timeliness of audits and increases the flexibility of the organisation. Thus, the organisation performs planning and evaluates risks as a continuous task. During the year, the progress in audits, as well as the preparation of preliminary studies and audit programmes is evaluated several times, the changes required by timeliness are assessed and the experience of audits is utilised. The planning process is shaped and directed by the results of this review. The SAO publishes its audit plan every half-year planning cycle.

The audit plan of the first half of 2012 reflects the changing nature of the planning process. In the audit plan, such audit tasks are also specified which will go through further preparation and approval processes. The indicated audit titles are only working titles, which may be subject to change until the approval of the specific audit programme. Following the approval, the resource data and deadlines indicated in the audit programme are included in the audit plan, which is disclosed on the website of SAO (www.asz.hu) and updated continuously.

The conclusion of audits started before the subject year and the tasks stipulated by law to be implemented annually highly determined the compilation of the plan. Out of these tasks, the SAO has to audit political parties and the foundations assisting the operation of

parties every two years according to the stipulations of the act on political parties and the act on the foundations assisting the operation of political parties. Firstly those political parties and the foundations thereof are audited which received state subsidy until 2010 regularly.

In conformity with the SAO's medium-term strategy, it has been set as a priority to audit the final accounts, to carry out and to extend the audits on the property and financial status of local governments. Moreover, follow-up audits are presented in the plan as independent audit subjects, and the development of the system thereof is in progress, in relation to the new Act on SAO.

Besides the reconsideration of the subject, objective and scope of the audit on the final accounts, in order to ensure the better utilisation of resources, we develop the coherent and coordinated system of the audit on the final accounts and further audits related to the final accounts. Thus, besides the financial regularity audit, several subjects are audited from regularity and performance perspective as well. These subjects emerged mainly in relation to the audits on the final accounts of former years, but the audits could not be carried out within the framework of the particular programme and audit type. With the new organisation of work, the individual work phases provide information for the audit of final accounts as well. However, in order to spare resources, the individual work phases of these audits are performed by the auditors participating in the audit of final accounts.

Following the audit of final accounts, it is evaluated what further – timely and important – audit subjects are raised or generated by the audit. These could be the subjects of audits related to the final accounts of the following years.

In 2011, the audit on the financial management of local governments was also renewed. In line with the objective of our strategy, the most significant change was the selection of premises to be audited on-site, based on risk assessment. On the basis of the analysis of the financial and property status, the limited auditor capacity was directed to the fields that were considered to be the most risky. With pilot audits, we evaluated – besides the financial situation of 12 local governments – the level of development and operation of internal controls in the field of property management. The latter evaluation confirmed that the audit on the appropriateness of the development of the internal control system is necessary, as the deficiencies thereof represent high risk in the economical and sound financial management of local governments. Therefore, based on the experience of the 2011 audits, in order to strengthen the regularity of the financial management of local governments of villages (large villages) – as widely as it can be realised with the limited resources – in 2012 we will carry out an audit on the appropriateness of the regularity of the operation of the internal control system at hundreds of local governments to facilitate the transparency and regularity of public finances.

We wished to contribute to good governance by the assessment of the financial situation of local governments operating on the middle level (of counties, towns with county status, and the capital city of Budapest), by detecting the risks thereof, by making recommendations on the improvement of the financial balance and the long-term sustainability thereof, as well as by making recommendations to the Government on the basis of the experience gained. The findings of the audits justified that the problem of financial balance of local governments constitutes a serious risk not only at the individual local governments, but also in respect of public finances as a whole.

The risk of indebtedness was experienced also in the case of local governments of towns. Therefore, the financial equilibrium of all the local governments was reviewed, and on-site audits were carried out at 63 local governments selected by means of statistical sampling. The summary report of the audits on the financial situation of the different local government levels will be published at the end of the first quarter of 2012.

The audit of the financial situation will be continued in 2012 at local governments.

Besides the evaluation of the financial situation of local governments and the audit of the appropriateness of the internal control system, in 2012 also the issue of property management will be in the focus of our audits. The audit of the property management of local governments and business associations in a majority ownership thereof will begin. With the amendment to the Act on SAO, effective as of 1 July 2011, the possibility of auditing the business associations in a majority ownership of local governments, thus the effectiveness of performing local government tasks carried out by business associations, as well as the evaluation of the economy and efficiency of the utilisation of public funds was granted. The expected result of the audit is the evaluation of the achievement of the property management objectives of the local governments, as well as of the preservation and increase of the local government property.

The planned tasks imply hundreds of audits per year. The performance thereof by the set deadline and in a good quality will be a challenge not only for 2012, but also for the period of the medium-term strategy.

Fulfilling our international obligation, the audit on the utilisation of funds allocated for the development of the cycle path network is included in the audit plan, which will be carried out in the framework of a parallel audit with the SAI of Slovakia.

Besides audits, we develop and operate the monitoring system, which continuously follows and sends signals on the financial-economic situation of local governments and the risks thereof. In the framework of this activity, we evaluate – with the continuous analysis of specific data – the financial management of local governments and we select the premises to be audited on-site on the basis of the risks revealed.

In order to ensure the efficient and high quality performance of audit work and to support it directly, as our priority and continuous activity we will continuously adapt international good practices, elaborate and further develop methodologies in alignment with the objectives and tasks in 2012 as well.

LIST OF AUDIT SUBJECTS

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

I. AUDITS STARTED IN 2011 AND CARRIED OVER TO 2012

- 01 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
- 02 Other regularity audit on the enforcement of EU regulations on waste shipment
- 03 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
- 04 Performance audit on the financial management system of local governments in 2011
- 05 Performance audit on the implementation and social utilisation of the contracts of cultural and higher education priority projects implemented in PPP schemes
- 06 Performance audit on the reorganisation of psychiatric health care
- 07 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
- 08 Performance audit on the debt of the central subsystem of public finances and its commitments for periods exceeding one year
- 09 Performance (systems) audit on the state subsidy system of rail transport
- 10 Performance audit on investment-related tax allowances and subsidies
- 11 Performance (systems) audit on utilisation system of state subsidies provided for the performance of public tasks of economic chambers in 2009-2011
- 12 Performance (systems) audit on the activities related to the exercise of proprietary rights over state property in 2011
- 13 Performance audit on the efficiency and effectiveness of the subsidy scheme of public employment and employment-oriented training programmes
- 14 Performance audit on local government associations and the task performance thereof
- 15 Performance (systems) audit on the utilisation of the funds provided for the operation of hospital care

II. AUDITS TO BE CARRIED OUT ANNUALLY (BIANNUALLY) BY LAW

- 16 Financial regularity audit on the execution of the 2011 budget of the Republic of Hungary
- 17 Opinion on the 2013 budget bill of Hungary
- 18 Financial regularity audit on the legality of the financial management of the Democratic Community of Welfare and Freedom in 2010-2011
- 19 Financial regularity audit on the legality of the financial management of the Antall József Foundation in 2010-2011
- 20 Financial regularity audit on the legality of the financial management of the MIÉP-Jobbik Third Way Party in 2008-2010
- 21 Financial regularity audit on the legality of the financial management of the Foundation for Hungarian Justice and a Better Hungary in 2009-2010
- 22 Financial regularity audit on the legality of the financial management of the Alliance of Free Democrats Party in 2009-2010
- 23 Financial regularity audit on the legality of the financial management of the Szabó Miklós Foundation in 2009-2010
- 24 Financial regularity audit on the accounting for the financial resources allotted to the campaigns of mid-term parliamentary elections in 2011 performed at the nominating organisations that obtained representation

III. NEW AUDITS TO BE LAUNCHED IN THE FIRST QUARTER OF 2012

- 25 Other regularity audit on the regularity of internal control and internal audit at central budgetary institutions involved in the audit of final accounts
- 26 Other regularity audit on the planning and the interim modifications of the chapter-managed appropriations of the 2011 budget in terms of financial-professional substantiation
- 27 Regularity and performance audit on Regional Training Centres
- 28 Regularity and performance audit on the Institutions of Agricultural Secondary Vocational Training and Consultancy
- 29 Regularity and performance audit on the task performance and property management of National Park Directorates
- 30 Regularity and performance audit on Zrínyi Miklós National Defense University
- 31 Regularity and performance audit on the Hungarian Authority for Consumer Protection
- 32 Regularity and performance audit on the Geological Institute of Hungary
- 33 Regularity and performance audit on the system of incentives for the employment of disabled persons and the utilisation of the subsidies allocated for this purpose
- 34 Other regularity audit on the appropriateness of the development and regularity of the internal control system of local governments in 2012
- 35 Other regularity audit on the situation and regularity of the financial management of local governments in 2012

- 36 Regularity and performance audit on the property management of local governments, the regularity thereof, including the audit on the performance of public tasks of business associations in a majority ownership of local governments
- 37 Performance audit on the utilisation of funds allocated for the development of the cycle path network (parallel audit with the SAI of Slovakia)
- 38 Follow-up audits

PRELIMINARY STUDY TOPICS
