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STATE AUDIT  
OFFICE OF HUNGARY

The Audit Plan of the State Audit Office of Hungary  
for the First Half of 2014

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Approved by

László Domokos  
President



## *Introduction*

According to its Strategy strengthened by resolutions of the National Assembly, the State Audit Office of Hungary (SAO) considers as its mission to promote the transparent and sound management of public finances with its value creating audits performed on a solid professional basis, and to contribute to ‘good governance’. It constitutes a responsibility and a challenge that the new Act on the State Audit Office of Hungary adopted in 2011 terminated the era of audits without consequences. From the planning of our audits through the implementation thereof to the utilisation of the audit results we wish to actually contribute to the development of the public finances system of Hungary, the improvement of the quality of public financial management, the achievement of public financial stability and to ensure that national assets are as safe as possible.

It is of public interest that the SAO utilises its resources in an economic, effective and efficient way, thus carries out audits in fields where it is the most necessary. The definition of audit topics and the selection of audit sites related to each audit topic are supported by meticulous preparatory work including risk analysis and the continuous processing of information necessary for the selection of audit topics.

When scheduling our audits we endeavour to ensure that SAO audit reports are published after one another with an even difference in time. Accordingly and due to the time necessary for each audit 14 topics included in our audit plan for the first half of 2014 cover audits carried over from the audit plan for the second half of 2013.

Similarly to the previous years, we give priority to our annual audit obligations stipulated by law also in 2014. The audit on the execution of the 2013 budget of Hungary can be completed with the utilisation of significant audit capacities, similarly to the previous years. In order to ensure the efficient management of resources, during the audit of the final accounts the same auditors carry out so-called “one-stop” audits at audited entities according to different audit programmes, optimising the workload of the audited entity related to SAO audits.

Besides the report to be prepared about the reliability of the final accounts and the opinion on the budget appropriation bill it our statutory task to audit the accounting of the financial resources allotted to the campaigns of parliamentary elections. We will carry out our 2014 audit according to the provisions of the new Act on the Transparency of Campaign Costs related to the Election of the Members of the National Assembly.

Our institution is a committed supporter of the integrity culture and an important participant of the fight against corruption. In our strategy the contribution to the fight against corruption and fraud as well as the participation in the creation of an integrity-based administrative culture are priority tasks. Therefore, in the course of audits covering internal control systems we also audit the existence and operation of integrity controls related to financial management.

It is our strategic objective to focus our resources available after the fulfilment of our statutory annual audit obligations or those related to other events on audits with a systemic, holistic approach in order to ensure the transparency of the complex processes of public finances. We lay emphasis on audits based on and related to one another, as the examination of a key field of public finances from different aspects contributes to the advisory activity of SAO.

Besides assisting legislative work, the systems audit on measures taken for improving the budgetary balance supports also the assessment of the impact of measures having an important role in the lifting of the excessive deficit procedure of the EU against Hungary and the compliance with the deficit target. SAO audits approached the utilisation of EU funds having a priority role in convergence from different aspects in the past years. The audit on institutions participating in the regular and effective utilisation of EU funds is justified among others by the winding up of the EU financial framework 2007-2013.

The professional and accurate planning of tax revenues adding up to the overwhelming majority of central budgetary revenues is an important element of the stable and predictable budgetary policy. In this context the SAO carries out its audits related to the task performance of the tax authority according to a systematic plan. Our 2014 audit on the National Tax and Customs Administration focuses on activities related to the management of tax arrears indicated as high risk during the past audits as well as taxation and audit activities performed in relation to special taxpayers. The audit also covers the operation of the international data exchange mechanism supporting the cooperation of EU Member States in the fight against VAT fraud (EUROFISC system), established by the National Tax and Customs Administration. Due to the cross-border nature of the operation of EUROFISC, this audit is carried out as a parallel audit with the participation of several countries.

In the past years several exemptions of tax and social contributions were introduced in order to increase the level of employment and to reduce unemployment. By auditing them we can learn about the operation mechanism of data provision, the inclusion thereof in the IT system of the general government, as well as the regularity of the operation of implementing agencies and the data exchange between them.

The SAO is the auditor of auditors, thus with its planned and conducted audits on institutions carrying out public tasks of audit among their basic activities it has a view on a far broader segment of public finances than the audited institution. In 2014 the SAO will audit the operation of the National Bank of Hungary again, with the exception of the saving programme containing own objectives. The audit will also include the evaluation of the activity of the Hungarian Financial Supervisory Authority integrated into the National Bank of Hungary. The challenges of the financial crisis affecting Europe's economy in the recent past were addressed by among others the changes related to the operation of the National Deposit Insurance Fund of Hungary. Therefore, in our audit plan we included the evaluation of the financial management and task performance of the Fund.

According to SAO's practice introduced in 2012, serial audits will also have a prominent role in our audit plan for the first half of 2014. During serial audits the SAO carries out audits at several audit sites on the basis of the same audit programme and prepares an individual audit report about each auditee. Serial audits concern mainly local governments, business associations in majority ownership of local governments, the institutions of the central subsystem, as well as state-owned business organisations. Our serial audits are distinguished from one another by indicating the relevant audit phase which refer to the differences within the audit period concluded by a report. With our serial audits we also prepare for the application of new audit aspects, approaches imposing higher requirements necessary due to the introduction of accrual accounting, which provide a basis for the audit of the consolidated financial statements of local governments.

Based on previous SAO audits, with the audit of national minority local governments we can gain an overall view of their financial management in a changed legal environment. We

evaluate the utilisation of our audit reports occasionally in the course of follow-up audits carried on-site as a result of risk analysis.

The SAO safeguarding the regular and economic utilisation of public funds and assets gives priority to the renewal of its audit methods, and it focuses its audit capacities on risky topics, areas and organisations. One of the most important tools thereof is risk analysis. The SAO determines the audit topics of the half-year rolling planning and audit sites on the basis of risk analysis.

As a socially responsible institution, the State Audit Office of Hungary is subordinated only to law and the National Assembly according to its independence stipulated by the Fundamental Law. It performs its activities independently from election cycles according to its public audit plan in a stable and transparent way. We are convinced that while keeping our professional commitment we support the creation of order in public finances in a creative way.

## LIST OF AUDIT SUBJECTS

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

- 1 *Property value preserving activities of economic organisations owned by the state* – Regularity audit on the activities of economic organisations owned by the state to preserve and increase property value at specific selected public service companies or other groups of companies performing similar activities
- 2 Regularity audit on the specific institutions of the central subsystem in terms of the financial management situation and the property management thereof
- 3 *Economic chambers* – Regularity audit on the utilisation of budgetary subsidies spent on the public task performance of economic chambers and the accountable costs related to the payment of vocational training contribution at business associations organising practical trainings in 2009-2011
- 4 Regularity audit on local government associations and the task performance thereof
- 5 Regularity audit on the financial management of Courts
- 6 Regularity audit of the operation and financial management of the Hungarian State Treasury
- 7 Regularity audit on the financial management of specific agrarian research institutes and genetic conservation institutions of the Ministry of Rural Development
- 8 Regularity audit on the operation of the former and renewed public procurement system
- 9 *Internal control system of local governments* – regularity audit on the set-up of the internal control system of local governments and the operation of specific control activities and internal audit (second phase)
- 10 Regularity audit on the situation and regularity of the financial management of local governments
- 11 Regularity audit on the property management of local governments
- 12 Regularity audit on the financial management of minority local governments (first phase)
- 13 *Higher education institutions* – Regularity audit on the financial management and operation of public higher education institutions, as well as the utilisation of state subsidies for higher education institutions maintained by churches
- 14 Regularity audit on the performance of public tasks of business associations in majority ownership of local governments
- 15 *Measures taken for improving the budgetary balance* – Systems audit on the measures taken for improving the budgetary balance and the impact thereof on the execution of the budget
- 16 *Regularity audit on the Governmental Information-Technology Development Agency (GITDA)* – Audit on the financial management and task performance of GITDA
- 17 *Audit on the Office of the Commissioner for Fundamental Rights* – Regularity audit on the operation, financial management and task performance of the Office of the Commissioner for Fundamental Rights

- 18 *Regularity audit of certain research institutes of the Hungarian Academy of Sciences* – Audit on the restructuring of the research institute network and the financial management and task performance of specific research institutes of the Hungarian Academy of Sciences
- 19 *Regularity audit on the National Tax and Customs Administration (NTCA)* – Audit on the regularity of the activities of NTCA related to the management of tax arrears, enforcement procedures, and those performed in relation to special taxpayers, as well as on the EUROFISC system
- 20 *System of the utilisation of EU funds* – Systems audit on the task performance of the National Development Agency (and intermediate bodies) related to EU funds
- 21 *Audit on the National Bank of Hungary* – Audit on the regularity of the operation of the National Bank of Hungary (NBH) and the Hungarian Financial Supervisory Authority (HFSA), as well as the integration of the activity of HFSA into NBH
- 22 *Audit on the National Deposit Insurance Fund of Hungary (NDIF)* – Regularity audit on the operation, financial management and task performance of NDIF
- 23 *Regularity audit on the financial management of national minority local governments*
- 23/1 Audit on the National Bulgarian Minority Government
- 23/2 Audit on the National Roma Minority Government
- 23/3 Audit on the National Greek Minority Government
- 23/4 Audit on the National Croatian Minority Government
- 23/5 Audit on the National Polish Minority Government
- 23/6 Audit on the National German Minority Government
- 23/7 Audit on the National Armenian Minority Government
- 23/8 Audit on the National Romanian Minority Government
- 23/9 Audit on the National Rusyn Minority Government
- 23/10 Audit on the National Serbian Minority Government
- 23/11 Audit on the National Slovakian Minority Government
- 23/12 Audit on the National Slovenian Minority Government
- 23/13 Audit on the National Ukrainian Minority Government
- 24 *Use of exemptions of taxes and social contributions* – Regularity audit on the use of exemptions of taxes and social contributions granted for employment purposes
- 25 Follow-up audits
- 26 *Internal control system of local governments* – regularity audit on the set-up of the internal control system of local governments and the operation of specific control activities and internal audit (third phase)
- 27 Regularity audit on the financial and asset management of local governments
- 28 *Business associations of local governments* – Regularity audit on the financial management activities of business associations in majority ownership of local governments related to their public task performance

- 29 Regularity audit on the asset preservation and financial management activities of business associations owned (partially) by the state
- 30 Regularity audit on the financial and asset management of specific institutions of the central subsystem
- 31 Regularity audit on the financial management of minority local governments (second phase)

**AUDITS TO BE CARRIED OUT ANNUALLY BY LAW AND AUDITS RELATED TO OTHER EVENTS**

- 32 *Execution of the 2013 budget of Hungary* – Compliance audit on the execution of the 2013 central budget of Hungary
- 33 *Opinion on the 2015 central budget* – Opinion on the 2015 central budget appropriation bill of Hungary
- 34 Regularity audit on the activities relating to the exercise of proprietary rights over state property
- 35 *Regularity audit on funds allotted to campaigns* – Audit on the accounting for the financial resources allotted to the campaigns of parliamentary elections in 2014 performed at the Hungarian State Treasury, the nominating organisations and individual candidates