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STATE AUDIT  
OFFICE OF HUNGARY

The Audit Plan of the State Audit Office of Hungary  
for the Second Half of 2016

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Approved by

László Domokos  
President



## *Introduction*

As a socially responsible institution and based on its independence stipulated by the Fundamental Law, the State Audit Office of Hungary (SAO) is subordinated only to law and the National Assembly. It performs its activity in a transparent manner according to public audit plans approved by its President and to the Act LXVI of 2011 on the State Audit Office of Hungary. Its strategic objective is to facilitate transparency, accountability and accounting in the financial management of public funds and public property with its value creating audits performed on a solid professional basis. To this end, with its determined, consistent and active audit behaviour facilitating positive changes the SAO supports responsible administrative operation that entails consequences and enforces law, thus contributing to the implementation of *'good governance'* and the renewal of state management.

For the achievement of its strategic objectives, the SAO plays an active role in the fight against corruption and fraud. It participates in the identification and application of the efficient and effective means of fight against corruption risks and corruption as well as in the diffusion of their use, and consequently, in formulating the integrity based administrative culture. As an important tool thereof, in its audits SAO evaluates the application of the integrity approach.

SAO carries out its audits according to an audit methodology renewed in 2015. The auditing principles of SAO are public and accessible for all stakeholders and those interested, thus ensuring the transparency of SAO's activity. In 2016, SAO carries out audits according to compliance and performance audit methodologies. The fundamental principles of compliance auditing provide a solid and broad background for the responsible, transparent and accountable utilisation of public funds, while the application of the fundamental principles of performance auditing contributes to the observance of the principles of effectiveness, efficiency and economy in the management of public funds and national assets.

SAO prepares its audit plan with the method of rolling planning. It is published and submitted to the National Assembly every six months. It continuously develops its audit planning system keeping in view that it shall support the selection of timely audit subjects of public interest. Planning is based on the continuous processing and analysis of information necessary for the audit topic selection. The audit plan is elaborated with the fundamental principle in view that audits result in provable savings in the utilisation of public funds by providing added value due to the selection of audit topics, the audit approach and their findings.

SAO strives to utilise audit capacities more efficiently by continuously rationalising its audit methods. To this end, it strengthens the audits relying on and related to one another, and pays special attention to the avoidance of duplications and to the continuous flow of information during the planning of audits. In order to strengthen the transparency of the complex processes of public finances, the SAO conducts audits with a systemic, holistic approach that allow summary evaluations. Serial audits carried out in a specific topic in the same field for several years and according to continuously renewed and updated programmes serve the mapping of the responsible and regular utilisation of public funds and the performance of public tasks of the different sub-areas of public finances and the organisations falling outside them.

The present audit plan contains the audits started in the first half of 2016 and are still ongoing (carried over from the previous period), as well as the audits started in the second half of 2016.

In terms of consistent accounting, the audit on the execution of the budget plays a prominent role. In harmony with that, one of the most important tasks of the second half 2016 is to conclude the audit started in the first half of the year on the execution of the 2015 budget. For the more efficient and effective accomplishment of the task, the SAO carries out this audit according to an audit model with a different approach based on the methodology renewed in 2015 and appropriate for covering the entire management of public finances.

SAO continues to lay emphasis on the audit of organisations and fields of pivotal importance in terms of the public debt indicator, the general government deficit and the competitiveness of the country. Besides proceeding with the audit on the debt clearance procedures of local governments commenced in 2015 and carried out according to the same aspects on several sites, SAO also audits the operation of the IT system of the general government and the statistical service, which is of pivotal importance in terms of the reliable monitoring of economic performance and the substantiated planning of the processes of the national economy. Furthermore, SAO also evaluates the monitoring system of EU-funded grants for research and development as well as innovation. The audit on the financial management of business associations owned entirely or partly by the state or local governments focuses on areas that have a significant impact on the economic performance of the country and can influence the deficit of the government sector and the amount of public debt as well. In 2016, SAO continues the audit on the tax revenues having an important role in general government revenues by auditing VAT related to e-commerce and R&D tax incentives.

In terms of the appropriate utilisation of public funds, SAO can audit every organisation receiving support, benefits and allowances. To this end, SAO is going to carry out audits among others on the Hungarian State Treasury, town museums with county rights and specific institutions of the central subsystem in the second half of 2016.

In 2016, SAO continues auditing the auditors, i.e. it examines institutions which perform audit and supervisory activities. It is within this concept that SAO audits the National Bank of Hungary and the Hungarian Energy and Public Utility Regulatory Authority. As a result of these audits, SAO can maximise its contribution to the establishment of a regular, responsible and disciplined management of finances.

In order to eliminate the ‘blind spots’, i.e. the unaudited areas of public financial management, SAO systematically continues its serial audits on the utilisation of supports received by public bodies for the performance of public tasks, as well as on the utilisation of budget subsidies for institutions outside public finances providing public education and social services. The audit on the financial management of foundations and public foundations as a new audit topic in the second half of 2016 means a step forward in this direction.

The regularity of the financial and asset management activities of institutions using public funds is an important element of the utilisation of public funds and the management of public property. Therefore, auditing the trusteeship and management of the property within the scope of public finances and the activities of organisations to maintain and increase property value is of pivotal importance. Bearing this in mind, audits on the financial and asset management of budgetary institutions, with special regard to hospitals, healthcare institutions, as well as audits on the financial management of business associations owned by the state or local governments continue in the second half of 2016. As a separate topic, the financial management of regional waterworks managing water utility assets representing a significant national economic value is also audited. Within this topic, the yearly evaluation of the activities relating to the exercise of proprietary rights over state property is of priority importance.

In the second half of 2016, SAO particularly focuses on the audit of major investments in process and the risks thereof. Our objective is to draw attention to the management of risks already during the major investments. In order to facilitate the effective implementation of investments, the audit covers the application of integrity aspects and the effectiveness of the management.

When auditing local governments, SAO focuses on fields where it is the most necessary according to the identified risks. To this end, it also monitors the data available in the central IT system. With this method SAO can also involve local governments in the evaluation which it has not audited before. With its audits based on the evaluation of monitoring reports and the identification of risks having an impact on the financial balance of local governments, SAO contributes to ensuring the sustainability of the financial management and task performance of local governments.

SAO audits show to what extent and with how much discipline audited entities comply with the public accounting system. During its audits, SAO continues to focus on the internal control system, the appropriate functioning of which is a prerequisite for the regular, responsible, economic, efficient and effective management of public funds and public property.

Based on its legal mandate, SAO continues to audit the financial management of parties and party foundations receiving budget subsidies in the second half of 2016 as well.

Integral and essential elements of the modern operation of public finances are IT systems and processes related to public funds which at the same time represent a significant risk in public financial processes. The reliability, safety, regulated and regular operation of IT systems has become a key factor. With these aspects in mind, SAO continues its audits on data protection and the IT system of public finances, while it launches the audit on the IT systems determining taxation-related processes.

The protection and development of human resources is essential in the future development of the national economy and preservation of social values. With this in view, in 2016 SAO commences the audit on the institutional system of child protection, including the examination of the entire system and specific priority areas, as well as the evaluation of the regular operation in compliance with the objectives. It is also within this topic that SAO audits the utilisation of shared knowledge for competitiveness and the good practices of graduate career tracking systems.

SAO considers it as a mission to contribute to the achievement of environmental objectives with its audits, thus supporting sustainable development. In the past years, several SAO audits related to the topic of sustainable development in a direct or indirect way. Within this topic we are going to audit the utilisation of funds spent on protection against ragweed and the tools of the regulations and measures aimed at the preservation of air quality in 2016. The appropriateness of the public services of chimney cleaning is essential in the safe energy utilisation, while it is also an important life and asset preserving issue affecting a broad part of the society. By having elaborated the energy efficiency strategy and highlighting the use of renewable energy, the Hungarian Energy and Public Utility Regulatory Authority plays an important role in ensuring sustainable development, thus the audit of the organisation is particularly relevant.

The international activities of SAO serve knowledge sharing. Cooperation with other SAIs provides opportunity for the exchange of audit experience, as well as for cooperative audit

activities in topics of mutual interest. It is within such international cooperation that SAO audits the national framework for data protection and certain key data records, as well as e-commerce coordinated by the SAI of Germany. Furthermore, SAO coordinates the audit aimed at mapping the good practices of graduate career tracking systems, carried out together with the SAIs of Bulgaria and Romania. Furthermore, we are planning to conduct our audit on air quality in an international cooperation, too.

In its Strategy, SAO has set the objective of improving the utilisation of the results of auditing work in order to trigger significant impact on initiating the necessary changes, supporting the accountable utilisation of public funds. Follow-up audits as tools for strengthening audits with consequences have an important role in terms of the utilisation of audits.

In order to promote the efficient and disciplined management of public finances, SAO prepared voluntary self-tests to support the regular operation of organisations and institutions managing public funds: local and minority local governments, central institutions, ecclesiastical institutions and organisation utilising EU funds.

The aim of SAO is that the utilisation of its audit activity, in compliance with its Strategy, be visible by the reinforcement of public confidence, the changes in the audited entities' attitude, the assistance provided to the law-making activities of the legislation, as well as by the changes generated in the minds of the public in relation to the most important socio-economic issues.

## LIST OF AUDIT SUBJECTS

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

1. *Audit on data protection* – Compliance audit on the national framework for data protection as well as on certain key data records in the framework of an international cooperation (ongoing task according to the audit plan for the first half of 2016)
2. Compliance audit of the financial and property management of local governments (second phase, ongoing task according to the audit plan for the first half of 2016)
3. *Business associations of local governments* – Compliance audit on the regularity of the financial management activities related to the performance of public tasks of business associations in a majority ownership of local governments (second phase, ongoing task according to the audit plan for the first half of 2016)
4. Compliance audit on the asset preservation and financial management activities of state-owned (or partly state-owned) business associations (second phase, ongoing task according to the audit plan for the first half of 2016)
5. Compliance audit on public bodies (ongoing task according to the audit plan for the first half of 2016)
6. Compliance audit on museums of towns with county rights (ongoing task according to the audit plan for the first half of 2016)
7. *Audit on non-governmental human service providers* – Compliance audit on the utilisation of funds granted from the central budget to proprietors of social and public education institutions providing human services outside public finances (ongoing task according to the audit plan for the first half of 2016)
8. Compliance audit on the operation of the information system of public finances and the official statistical service (ongoing task according to the audit plan for the first half of 2016)
9. *Audit on the debt clearance of local governments* – *Systems* audit on the debt clearance procedures of local governments (ongoing task according to the audit plan for the first half of 2016)
10. *Audit on carbon credits* - Compliance audit on the management of carbon credits (ongoing task according to the audit plan for the first half of 2016)
11. Coordinated audit ‘for the better utilisation of shared knowledge for competitiveness – revealing the good practices of graduate career tracking systems’ (ongoing task according to the audit plan for the first half of 2016)
12. Regularity audit on the financial and property management of specific institutions of the central subsystem (third phase, ongoing task according to the audit plan for the first half of 2016)
13. *Internal control systems of local governments* – Compliance audit on the set-up and operation of the internal control system of local governments (fifth phase, ongoing task according to the audit plan for the first half of 2016)
14. Follow-up audits

15. *Audit on the institutional system of child protection* – Compliance and performance audit on the task performance of central and local government proprietors providing personal care (ongoing task according to the audit plan for the first half of 2016)
16. Compliance and performance audit on chimney cleaning public services (ongoing task according to the audit plan for the first half of 2016)
17. Compliance and performance audit on the combat against ragweed (ongoing task according to the audit plan for the first half of 2016)
18. Compliance audit of the Hungarian Energy and Public Utility Regulatory Authority (ongoing task according to the audit plan for the first half of 2016)
19. Compliance audit on the information systems of the National Tax and Customs Administration (ongoing task according to the audit plan for the first half of 2016)
20. *Business associations of local governments* – Compliance audit on the financial management of business associations in a majority ownership of local governments (third phase) – (ongoing task according to the audit plan for the first half of 2016)
21. *State-owned business associations* – Compliance audit of the asset preservation and financial management activities of state-owned (or partly state-owned) business associations (third phase) – (ongoing task according to the audit plan for the first half of 2016)
22. *Financial management of national minority local governments* - Regularity audit on the financial management of national minority local governments (fourth phase) (ongoing task according to the audit plan for the first half of 2016)
23. *Institutions of the central subsystem* – Compliance and performance audit of the financial and property management of specific institutions of the central subsystem (fourth phase) (ongoing task according to the audit plan for the first half of 2016)
24. *Internal control system of local governments* – Compliance audit of the set-up and operation of the internal control system of local governments (sixth phase) (ongoing task according to the audit plan for the first half of 2016)
25. *Compliance audit of local governments on the basis of financial monitoring* (ongoing task according to the audit plan for the first half of 2016)
26. *Audit on the EU-funded research, development and innovation grants* – Compliance audit of the follow-up system of EU-funded research, development and innovation grants
27. Compliance and performance audit on the financial management of regional waterworks
28. Compliance and performance audit on the financial management of the Hungarian State Treasury
29. Regularity audit on the financial management of foundations/public foundations
30. Compliance and performance audit on the measures aiming at the protection of air quality
31. Regularity audit on the operation of the National Bank of Hungary



32. *Audit on non-governmental human service providers* – Compliance audit on the utilisation of funds granted from the central budget to proprietors of public education and social institutions providing human services outside public finances (second phase)
33. Compliance audit on public bodies (second phase)
34. Compliance and performance audit on major investments

**AUDITS TO BE CARRIED OUT ANNUALLY, BIANNUALLY BY LAW OR RELATED TO OTHER EVENTS**

35. *Execution of the 2015 budget of Hungary* – Compliance audit on the execution of the 2015 central budget of Hungary (ongoing task according to the audit plan for the first half of 2016)
36. Regularity audit on the activities related to the exercise of proprietary rights over state property
37. Review of the local government decree on revenues due to and shared by the Budapest Municipality and the Budapest district local governments in 2016
38. Regularity audit on the legality of the 2014-2015 financial management of parties receiving budget subsidies
  - 1 Financial regularity audit on the legality of the financial management of FIDESZ – Hungarian Civic Union in 2014-2015
  - 2 Financial regularity audit on the legality of the financial management of the Christian Democratic People’s Party in 2014-2015
  - 3 Financial regularity audit on the legality of the financial management of the Democratic Community of Welfare and Freedom in 2014-2015
39. Audit on the legality of the 2014-2015 financial management of party foundations receiving budget subsidies
  - 1 Financial regularity audit on the legality of the financial management of the Foundation for a Civic Hungary in 2014-2015
  - 2 Financial regularity audit on the legality of the financial management of the István Barankovics Foundation in 2014-2015
  - 3 Financial regularity audit on the legality of the financial management of the Antall József Foundation in 2014-2015
40. Audit on the legality of the 2013-2014 financial management of parties receiving budget subsidies (ongoing task according to the audit plan for the first half of 2016)
41. Audit on the legality of the 2013-2014 financial management of party foundations receiving budget subsidies (ongoing task according to the audit plan for the first half of 2016)