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STATE AUDIT  
OFFICE OF HUNGARY

# Summary Report

for the National Assembly  
on the Professional Activity and  
Operation of the State Audit Office  
of Hungary in 2016

April 2017



ÁLLAMI  
SZÁMVEVŐSZÉK

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*László Domokos*

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President

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# TABLE OF CONTENTS

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■ FOREWORD BY THE PRESIDENT .....	5
■ THE PAST YEAR OF THE SAO.....	9
■ SAO PROFESSIONAL ACTIVITIES IN 2016 .....	18
I. Utilisation areas of our activities.....	18
1. Utilisation in the work of the National Assembly .....	19
2. Utilisation on the side of audited entities.....	23
3. Information supply and advisory function - areas of societal utilisation .....	29
II. Focus areas .....	35
1. Supporting the concept of the “well-managed state” .....	35
2. Auditing the auditors.....	52
3. Audits and analyses related to the systems of public finance .....	57
III. Organisational and methodological progress .....	75
1. Strategic changes .....	76
2. Quality control system.....	77
3. Internal control system .....	77
4. Capacity building .....	78
■ THE FINANCIAL MANAGEMENT OF THE SAO IN 2016 .....	80
1. Budgetary statement of the SAO.....	80
2. The effectiveness of financial management .....	84
■ ANNEXES.....	87
Annex I: Duties of the State Audit Office of Hungary.....	87
Annex II: Reports, analyses and studies prepared by the SAO in 2016 by focus area.....	89
Annex III: List of abbreviations .....	100
Annex IV: Auditor’s report .....	102



# FOREWORD BY THE PRESIDENT

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Dear Reader,

When reviewing and evaluating the work performed by the State Audit Office of Hungary, it becomes expedient taking a look at the focal points of the organisation's activities and examining to what extent the performance of the year 2016 met the aspirations stated by the State Audit Office.

In line with the commitments set forth in its strategy, the mission of the State Audit Office of Hungary, as the National Assembly's supreme body of financial and economic supervision, is to promote the transparency and regularity of public finances with its value creating audits performed on a solid professional basis, thus contributing to "good governance".

The new Fundamental Law created in 2011 and its first cardinal statute, the new act on the State Audit Office of Hungary (SAO Act) effective as of 1 July 2011 has laid new foundations for public finances in Hungary. In addition, the State Audit Office of Hungary pays special attention to compliance with and to the practical utilisation of the decisions of the National Assembly affecting the State Audit Office of Hungary. The accomplishment of these constitutional and legislative objectives, as well as the pursuit of transparency determine the professional activities of the SAO, the illustrative summary of which in relation to the year 2016 is presented on pages 10-11 of the Report.

The SAO primarily supports the regular and transparent use of public funds and public property through its audits and the recommendations given thereon, and through the evaluation of the actions plans compiled by the audited organisations. At the same time, through its audits it also seeks to encourage the effective, efficient and economic utilisation of public funds. The institution, inter alia, makes its contribution to "good governance", and supports the concept of a well-managed state by its advisory and analytical activities supplementing its audit processes, which is a statutory duty as set out in the SAO Act.

It is a specific feature of the SAO's activity that review processes are focused on past events, however, the evaluation of the auditing experience gained – as done in previous years and even today – is future-oriented and provides background for the foundations laid for the purposes of the decisions prompted by the audit processes. In addition to the auditing work, the SAO continuously supports the audited entities, the National Assembly as well as international and domestic professional activities through the various channels of knowledge sharing, by providing analyses, recommendations, proposals and guidance related to present and occasionally past events, with projections to the future at the same time.

The State Audit Office of Hungary considers itself a self-learning organisation, meaning that it is capable of introducing changes based on its experiences and of continuously enforcing positive changes in its environment. Being an exemplary organisation, it utilises, continuously supplements and shares the knowledge acquired with other organisations.

As far as the SAO was concerned, 2016 was a year marked by the extensive sharing of experiences gained. The audits were complemented by intensive advisory and information provision activities. Although the word "new" is often used as a synonym of "good", it is applicable only if the SAO maintains its existing values while also acting according in line with this supplementation. As the retention and maintenance of the results achieved, as well as the utilisation of experience gained therefrom represent just as much value in the life of the State Audit Office of Hungary as the broadening of the organisation's vision, the efforts made to reduce "blank spots" and the positive outcomes gained from the methodological reforms.

This fact seems to be substantiated by the extraordinary performance of the State Audit Office of Hungary in the year 2016 considering the number of reports published by the organisation: In 2016, a record number of reports,



i.e. 260, were drawn up on the audits completed. Based on this volume of work, the SAO issued 2,232 recommendations and sent 169 warning letters to audited entities. Based on the recommendations made, the organisation evaluated 471 action plans prepared by the audited entities, thereby supporting the increased utilisation of such recommendations. By completing such audits, the State Audit Office of Hungary fulfilled its statutory obligation. The auditing of the execution of the central budget and of the final accounts was a prominent task among all other audits required by law, specifically supporting the transparency of public finances and the accountability for managing public funds, as it reviewed the reliability of the revenues and expenditures of the whole of the central subsystem.

Whereas, it contributed to the acceptance of a well-substantiated government budget by evaluating the central budget appropriation bill, in harmony with its statutory obligation.

In addition to performing the audits with the frequency required by law, the SAO conducted audits, based on an authorisation granted by law, on areas and entities where it detected risks through its risk assessment system, or where it expected to achieve the largest added value and societal benefits from the completed audits. During the course of 2016, it continued to expand the range of audited areas, and as a result reduced the “grey area” in the insight to the utilisation of public funds.

The 2016 audits of the SAO were focused on supporting the concept of the well-managed state, as well as on the monitoring of organisations, state assets, the institutions of the central subsystem and the subsystem of local governments. We performed follow-up audits in all focus areas by giving effect to the intention to end the era of inconsequential audits. The SAO sent notifications in 251 cases to the competent authorities on irregularities and certain circumstances detected during the audits.

The 21 analyses published in 2016, as well as the 11-part series of studies on good governance served the purpose of supporting the concept of the well-managed state within the framework of the SAO’s advisory activities. The above mentioned analyses focused on diverse topics related to the following: the support given to the work of the Fiscal Council, the management of public debt, the country’s economic competitiveness, the integrity assessment of public institutions and of the state and local government-owned companies, and the enhancement of financial literacy.

The SAO placed special emphasis during the course of its work on the factors having a negative effect on Hungary’s competitiveness, such as the internal control issues of the institutional systems, corruption, the potential lack of transparency, and at the same time took into account the positive changes as well, such as the beneficial effect of the reduction of public debt and the improvement in the balance of budget.

Amongst others, the five conferences, the nine events for exchanging views with local government associations and the Church that were organised by the SAO, as well as the 50 professional presentations given by SAO employees all served the purpose of sharing the knowledge accumulated within the organisation. The SAO continuously broadened the scope of the self-tests developed by the organisation supporting the audited entities in the assessment of their own processes and their degree of regulation. Self-tests were developed for an increasing scope of entities from 2014, and by the end of 2016 the number of downloads from the SAO website by institutions amounted to 6,286.

In order to further underpin the above, the activities of the Members of Parliament and parliamentary decision-making were supported by 25 parliamentary information sessions. The SAO gave recommendations for 36 draft bills, and multiple legal regulations were amended by utilising the SAO’s recommendations drawn up on the basis of the experience gained from the audits. The State Audit Office of Hungary also takes the opportunity in this information notice to call the attention to issues that may require additional statutory provisions or other actions for the protection of public funds or public property.

The SAO took steps for communicating its activities to the public by performing intensive communication activities. 2,027 news articles were published on the SAO’s work on the SAO News Portal, and although the related reports were also made available for the greater public last year, the organisation held 61 press conferences to give account of its professional achievements.

In addition to meeting its statutory obligations, the SAO fully implemented the decisions of the National Assembly that set forth tasks for the organisation.

In 2016, the SAO continued supporting the process intended for the reformation of public sector management. To this effect, it compiled studies, organised seminars, and supported ethical leadership training according to a related decision adopted by the National Assembly. In this context, in 2016 it launched a training course in conjunction with the University of Miskolc for the purpose of training public service performance analysts.

The SAO celebrated the 5th anniversary of the anti-corruption cooperation of public institutions by organising a related conference in 2016. Additional organisations joined the cooperation, of which the SAO is an active participant and driving force. The SAO conducted its successful integrity survey playing an important role in the fight against corruption for the sixth time last year, by extending the range of organisations involved in the survey with business associations. The integrity criteria were also integrated by the SAO into the audit programmes.

By improving financial literacy, we are able to facilitate conscious and responsible financial and public finance decision-making; therefore, the SAO, as part of its social responsibility undertakings, supports the dissemination thereof. Research clearly indicated that the pillars of financial decision-making and the required factual knowledge to be acquired by young adults are of fundamental importance for the society's responsible financial thinking, therefore, the State Audit Office of Hungary set itself the objective of enhancing the financial knowledge of this particular stratum.

The State Audit Office of Hungary's unchanged objective is to make the management of public assets, the operation of public services and the economic management of public funds more transparent, straightforward and effective. Its advisory activity is focused on launching positive changes that directly or indirectly affect the everyday lives of Hungarian citizens.

We believe that our transparency-creating audits and the related findings will provide the grounds for continual development, and will be viewed as real guarantees for performing the auditing activities and for improving the management of public finances.

**László Domokos**  
President  
*State Audit Office of Hungary*





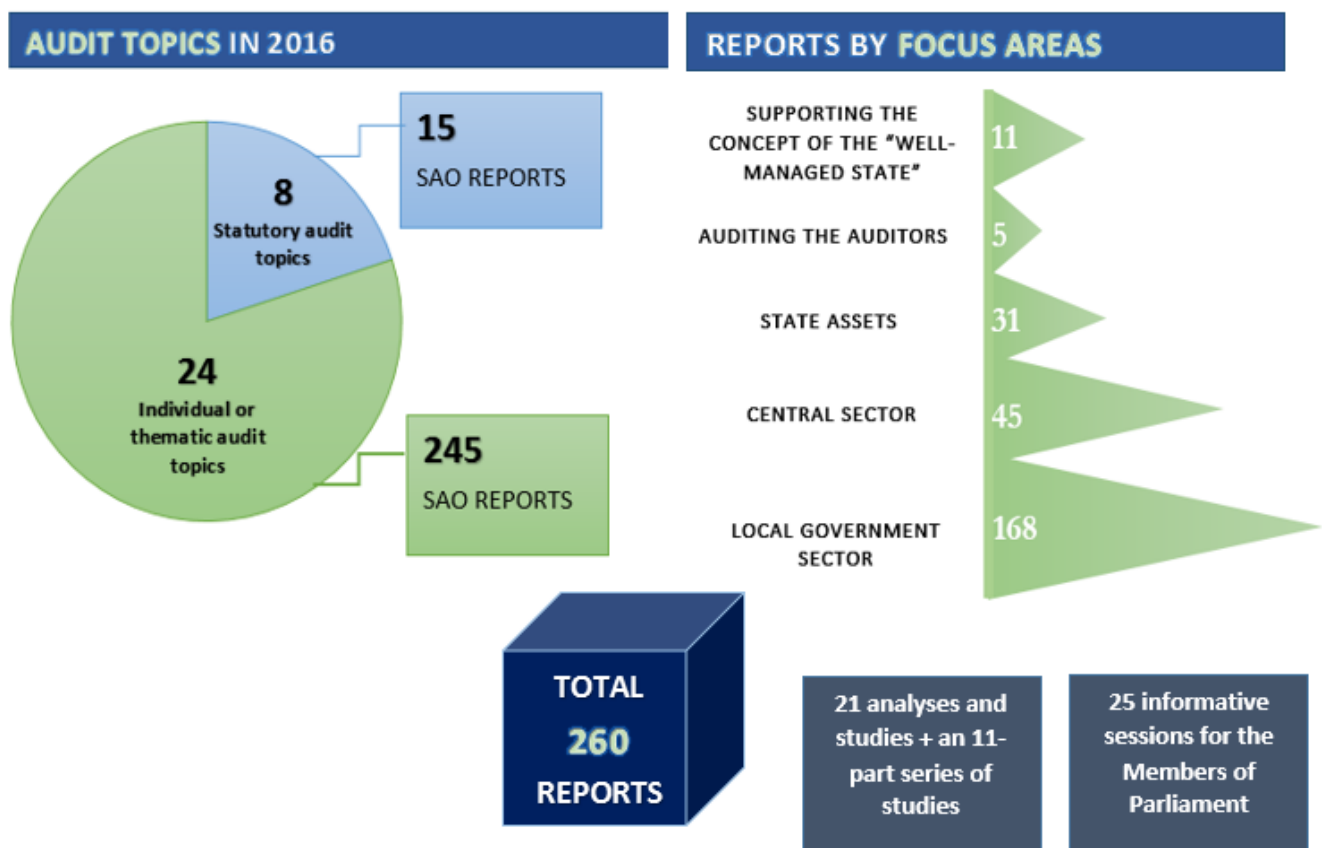
# THE PAST YEAR OF THE SAO

*2016 was devoted to knowledge sharing in the life of the State Audit Office of Hungary. Good practices, the achievements, experience gained at domestic and international events, the completed reports and studies and the summarising of publications' knowledge content represented a highly important part of the accomplishments for 2016. In force since 2012, the Fundamental Law defined new and clear frameworks for the auditing of the efficient and effective utilisation of public funds. The starting point of the control applied to the legitimate and efficient management of public property was based on the auditing methodology that had been made subject to fundamental reforms earlier, on continually changing and broadening audit focuses as well as on the renewal of the domestic and international professional norms.*

## Summary of the previous year in figures

In addition to sustaining stable values, the State Audit Office of Hungary has committed itself to continuous progress and development in recent years. By continuing the work begun, in 2016 it again set itself the objective of increasing the utility of its activities, increasing the targeted nature of its audit processes, clarifying the focal points and of extending its scope of activity. In the SAO's view, the transparent utilisation of public funds, the management of public property and the controlling of the effective method of operation are of the utmost importance in areas that play a decisive role in the country's future.

Figure 1

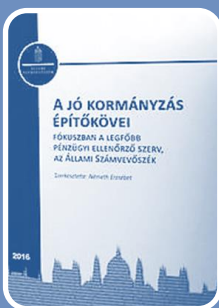


## Focal points of the State Audit Office of Hungary in 2016



### The building blocks of good government – five years of the Fundamental Law

The SAO adopted this title for its conference organised in October 2016, where the topics discussed demonstrated that the work performed by the SAO is the practical embodiment of the Fundamental Law's chapter on public finances, and at the same time the SAO had been an active participant in the facilitation of the appropriate utilisation of public finances.



### "The Building Blocks of Good Governance" study series

The SAO compiled a series of studies entitled "The Building Blocks of Good Governance" consisting of 11 independent studies representing the SAO's objectives set for the purpose of supporting the concept of good governance.



### International Knowledge Sharing: donor agreement with IDI

In 2016, accepting the recommendation of the SAO, the Government signed a HUF 129 million Donor Agreement with INTOSAI's development organisation. The SAO offered the savings from its 2014 operating budget to join the development initiative of the International Organization of Supreme Audit Institutions, thereby contributing to the global fight against corruption.



### The 6th Integrity Survey

In 2016, the SAO conducted its sixth annual Integrity Survey, the aim of which is to provide feedback on the vulnerability to corruption of public sector institutions, as well as the levels of controls that serve to manage corruption risks. Last year saw more public institutions participate in the survey than ever before, a total of 3,002, thus involving 61.3 per cent of public sector employees. In 2016, the SAO published the results of the integrity survey related to business associations at the first time. A total of 661 companies submitted properly completed questionnaires within the framework of the SAO's first integrity assessment extended to state and local government-owned economic operators.



#### The renewal of public sector management in focus

In the interest of the renewal of public sector management, the SAO developed a set of proposals consisting of four elements, recommending that the performance of the management of state-owned companies should be evaluated from the perspective of compliance, effectiveness, efficiency and economy on a continuous basis. The SAO initiated that the managers of state-owned companies should comply with strict ethical and integrity principles; and the remuneration system of company managers should be reformed.



#### The joint training programme of the University of Miskolc and the SAO has been launched

The SAO's audits pointed out earlier that there is a need for the training of experts for public service organisations who are capable of contributing to the responsible, effective and transparent management of public funds, and in consequence to the development of public sector management. As a result, in 2016 the SAO and the University of Miskolc jointly launched a training course for public service analysts, which is intended to serve as a result-oriented, performance-focused basis for experts working in the public sector.



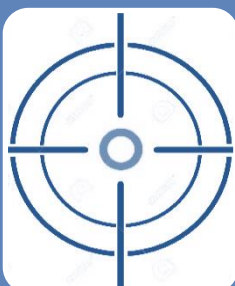
#### 5 Years of anti-corruption cooperation

The SAO has continued its fight against corruption. During the "5 Years of Anti-Corruption Cooperation" conference organised by the supreme audit organisation, the existing collaborators were joined by new members: the National Bank of Hungary and the Public Procurement Authority also joined the anti-corruption cooperation of public bodies, thus undertaking to strengthen the resilience of public bodies against corruption and to develop the toolkit used against corruption.



#### Financial awareness and its importance

In recent years, the enhancement of the financial literacy of Hungarian citizens has become one of the SAO's priorities in the area of corporate social responsibility. The most recent achievement of the network of cooperation developed by the SAO since 2011 (a priority part of which is its joint thought process with Econventio Roundtable Nonprofit Association) is the "Pénzügyi Kultúra 2016 Project" (Financial Literacy 2016 Project) aiming to improve the financial literacy of Hungarian families, to enhance financial awareness and to implement support programmes for broadening financial and public funds-related knowledge.



#### Communication-focused peer review - the State Audit Office of Hungary under external assessment

The Polish and the Lithuanian Audit Offices prepared a Peer Review Report on the external communication activities of the SAO in 2016. The Peer Review report concluded that the SAO operated an efficient and professional communication system contributing to the practical utilisation of its efforts.

## Expanding functions and regulatory progress

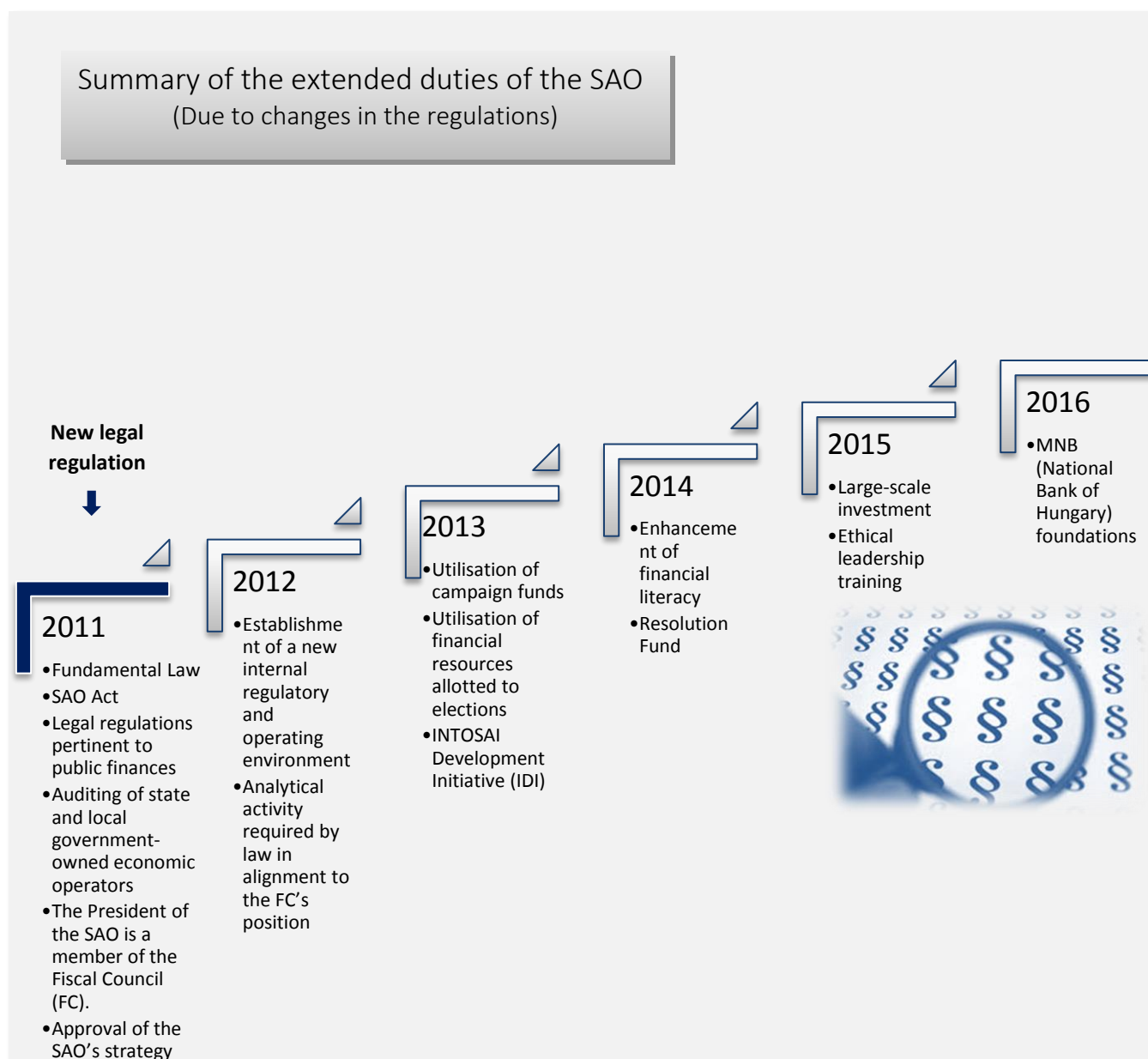
The Fundamental Law, which turned five years old in 2016, and the subsequent cardinal act in the past years have gradually expanded the advisory activities of the State Audit Office, in addition to its primary auditing duties, based on the fundamental spirit of the Act on the State Audit Office of Hungary and in harmony with the relevant resolutions of the National Assembly.

The SAO Act adopted in 2011 provides for the State Audit Office's contribution to the operation of a well-managed state.

In 2016, the State Audit Office of Hungary continued its work as the supreme financial and economic audit institution of the National Assembly. By fulfilling this duty, the SAO is required to meet numerous obligations required by law and defined in legal regulations. However, it can be clearly seen that this role has been expanding in the past few years. This trend, well illustrated by Figure 2, largely stems from the findings and advisory function of the State Audit Office of Hungary. In addition to a good number of audited areas, the experience gained from previously uncovered audit areas and the identifiable problems arising regularly and repeatedly are the driving forces behind the continuous expansion of the SAO's scope of activity. Legislative provisions, government decrees and the resolutions of the National Assembly provide the framework for these areas of operation.

The duties of the State Audit Office of Hungary defined by laws and legal regulations are presented in Annex I.

Figure 2

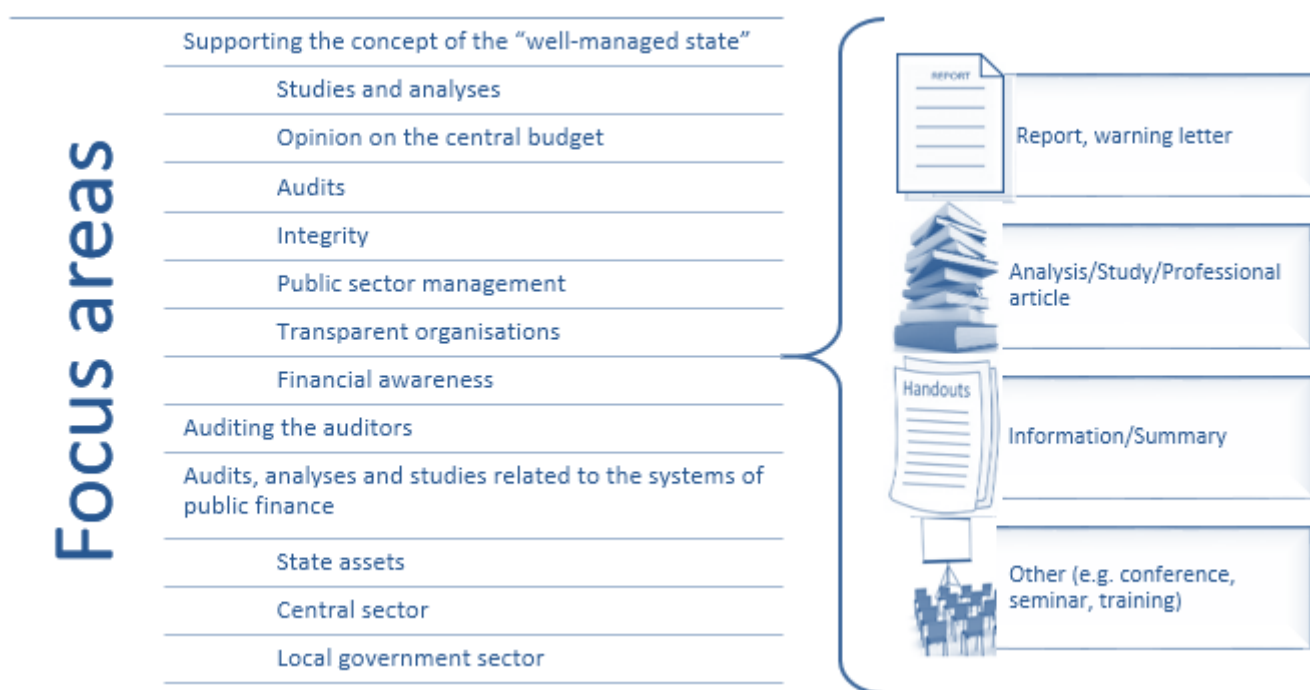


## Presentation of the focus areas

The SAO’s audit activity is essentially determined by the statutory requirements prescribing the execution of certain tasks with a pre-defined frequency. In addition, the SAO conducts its monitoring activity and develops its topic suggestions for the semi-annual rolling planning cycle by relying on its risk analysis system based on targeted data requests and data processing. It pays special attention to high-risk topics, and continually incorporates those into its audit plans. The selection of audit topics that relies more heavily on the findings of risk analyses supports the improvement of the quality and efficiency of audits. Based on risk analyses, financial management and the use of public funds proved to pose risks at a number of institutional groups, indirectly influencing the implementation of the public debt reduction objective. When performing its risk analysis for the purpose of selecting audit locations, the SAO, within the framework of the Expansion of Integrity-Based Public Administration Culture Project, also took into account the results of the integrity surveys completed by the affected entities.

In 2016, the SAO’s auditing and advisory activities were concentrated on the focus areas indicated in Figure 3.

Figure 3



In terms of the “SUPPORTING THE CONCEPT OF THE “WELL-MANAGED STATE”, the SAO fulfilled its statutory obligations by using several means. The SAO basically performed its advisory role with the aim to support the above objective by publishing analyses, studies, as well as information documents for the National Assembly. In the absence of comprehensive international models, the SAO has constructed its own model to provide an overview and a classification of the contribution of supreme audit institutions to good governance. On the occasion of the 5th anniversary of the new SAO Act, the organisation published a series of studies entitled “*The Building Blocks of Good Governance – The Supreme Audit Institution, the State Audit Office of Hungary in Focus*”.

The State Audit Office of Hungary also fulfilled its duties set forth in the resolutions of the National Assembly: it completed its respective duties without exception by continuing the implementation of the integrity surveys and by applying those to economic operators, by making its contribution to the renewal of public sector management, by actively supporting ethical leadership training and by undertaking its corporate social responsibility for the development of financial literacy. The SAO played an important role in turning the organisations relying on public funds more transparent through its audits and leading by example.

Within the framework of supporting the concept of the well-managed state, the SAO turned its attention to the auditing of public sector organisations and fields which were of primary importance in terms of the public debt ratio, the public finance deficit and the country's competitiveness. Amongst others, these included the following: the debt management system of the central subsystem, the auditing of tourism development measures, and the audit performed for exploring the good practices of the graduate career tracking system with a view to ensuring a better utilisation of competitive knowledge. From the aspect of the transparency of the utilisation of public funds and of the reliability of such utilisation, the planning and execution of Hungary's budget are of fundamental significance. The related audits were amongst the SAO's most important statutory duties in 2016, requiring significant human resource capacities from the organisation. While drawing up its opinion on the draft central budget of Hungary, the SAO concentrated on the elements of material importance and requiring special attention, while during the audit of the execution of the budget, using a method ensuring 100% coverage, the organisation ascertained that the reliable and comprehensive evaluations referring to its entirety were well-grounded, thus supporting the National Assembly in making sound decisions.

In 2016, the SAO continued to place great emphasis on auditing market regulation mechanisms, and the organisations supervising compliance with the relevant legislations. Within the framework of "AUDITING THE AUDITORS", those institutions came under scrutiny that also perform auditing and supervisory activities themselves (Hungarian State Treasury, National Tax and Customs Administration, National Bank of Hungary, as well as the Chamber of Hungarian Auditors, as a market player). As a result of these audits, the SAO had an increased impact on the furtherance of regular, responsible and disciplined management of public funds.

The auditing of "STATE ASSETS" is based on the SAO's statutory duty to inspect the management of state assets. The SAO annually audits the activities relating to the exercise of proprietary rights over state property. In addition, the auditing of the asset preservation and financial management activities of state-owned (or partly state-owned) economic operators was continued, as a consequence, the SAO had gained increasing insight into management of state assets transferred under the care of non-budgetary organisations. Furthermore, the SAO also extended the audits focused on asset management to the institutions of the central and local government subsystem. Within the framework of auditing the regularity of asset management the SAO, amongst others, examined the fulfilment of the obligation related to the safeguarding of assets, the failure of which may also cast light on inappropriate management actions. The audits contribute to the safeguarding of national assets by making transparent the changes in property and the measures taken for its safeguarding. After the asset management audits performed under a separate auditing programme covering local governments launched in 2013, the SAO launched systematic audits focusing on the management of national assets involving the institutions of the central subsystem.

The "CENTRAL SECTOR" includes the institutions of the central subsystem and the aids provided from the central subsystem. The budgetary institutions of the central subsystem of public finances exert a significant impact on the maintenance of the budget balance and on the quality of the management of public property. While performing their public duties, these institutions also have determinative influence on the population's quality of life, and on the exercising of their rights and obligations. In terms of the institutions of the central subsystem, the SAO mainly audited the financial and asset management activities of these institutions. The organisation complemented the audits with a performance audit module for the purpose of examining the enforcement of the obligations related to economic efficiency, effectiveness and expedience. The SAO's audits are focused on organisations of special importance from a societal point of view and on the maintainers of institutions within the central subsystem. The National Tax and Customs Administration and the Hungarian State Treasury have determinant roles in the functioning of public finances and in the execution of the budget, therefore, these organisations are audited annually. In 2016, the Hungarian Central Statistical Office (HCSO) was also added to the list of audited institutions of priority importance. The HCSO's reliable and appropriate functioning has a fundamental role in enabling the government, and more extensively the economic and societal players to make their respective decisions based on veritable and credible information. Last year, of the institutions of the central subsystem, hospitals and water management directorates were audited with greater scrutiny. Furthermore, it is the SAO's strategic objective to contribute to the transparent utilisation of public funds by civil organisations, as well, for the economical, efficient and effective performance of public tasks undertaken in a contract, by auditing the budgetary subsidies granted to non-budgetary

entities and the assets provided free of charge. To this effect, in 2016 audits were launched focusing on the utilisation of budget support granted to the maintainers of non-budgetary institutions providing public education and social services, and on the utilisation of subsidies granted to public bodies with a view to performing their respective public duties. The audits related to the financial management of foundations and public foundations commenced in 2016 were also intended to eliminate the previously unaudited 'grey areas' of the utilisation of public funds. The SAO fulfilled its statutory obligations when it performed the audits of political parties and of by-elections.

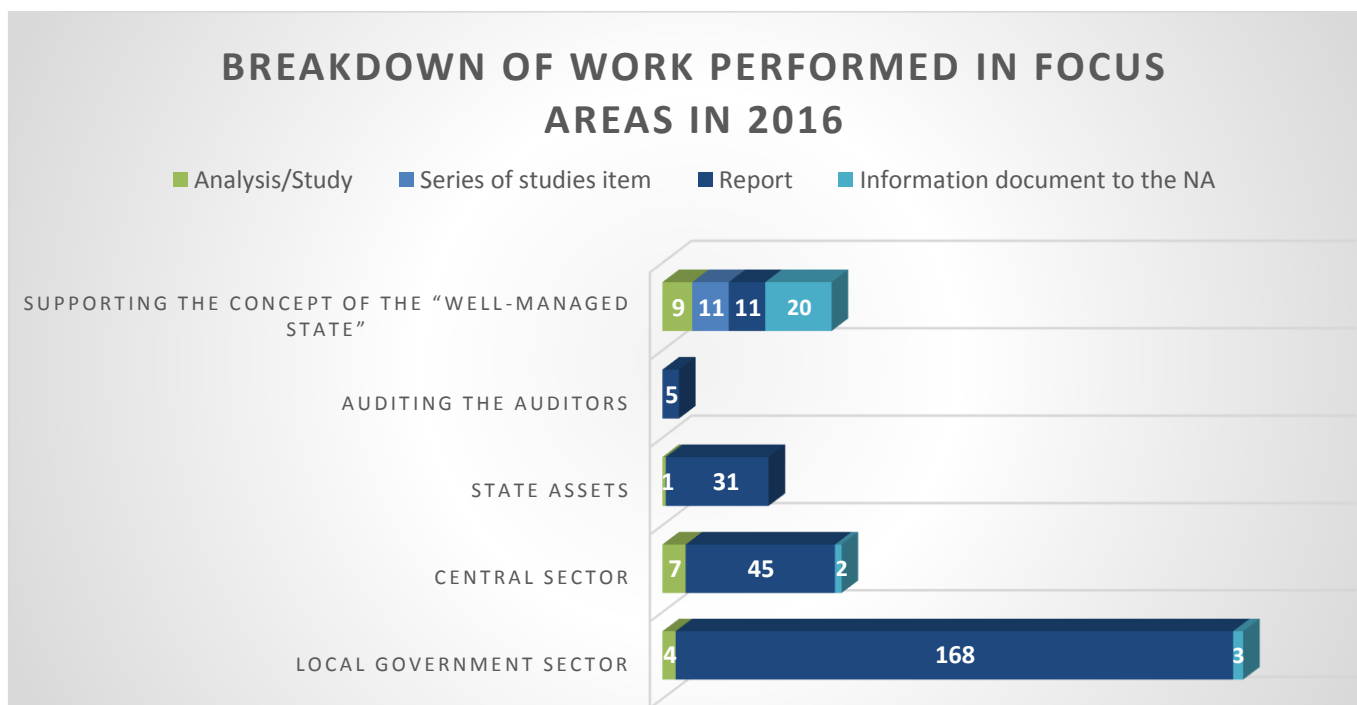
The "LOCAL GOVERNMENT SECTOR" has been in the focus of the SAO's audits for several years. This is justified by the prevention of the problems related to the equilibrium in public finances, the protection of national assets and the ensuring of the regular utilisation of public funds of significant value within this subsystem. Within the audits of the local government area, the auditing of the internal control systems that represent a safeguard against corruption threats, as well as the auditing of the financial balance and the regularity of the financial management of local governments was again given great emphasis in 2016. The auditing of local governments' debt settlement process and of the responsible management of their liquid assets continued in 2016 due to the increased risks. Considering the fact that there are no uniform assessments or records in relation to Hungary's public collections, the SAO plans to assess the management of public collections and art treasures with the involvement of all audited entities in the next few years. All town museums with county rights were audited in 2016 (the publication of some of the related reports was delayed until the beginning of 2017). Another reason behind the auditing of these entities was that several significant changes occurred within a short period of time affecting the establishment of the current category of town museums with county rights, as well as their ownership and maintainers' structures.

The auditing of local government-owned business associations was also given special emphasis due to the explicit and implicit risks to public debt, and also on account of the significance of the public duties performed. The number of audits completed at local government-owned business associations was almost double in 2016 compared to the previous year.

The enhancement of the utilisation of results gained from the auditing activity remains an objective with a view to provoking the necessary changes, thus supporting the establishment of the accountable spending of public funds. Accordingly, from the perspective of the utilisation of audits it is of priority importance that the SAO evaluates the implementation of actions plans drawn up on the basis of the recommendations put forward during audits based on a uniform set of criteria, within the framework of follow-up audits, thereby enhancing the utilisation of the recommendations formulated during audits and marking the end of the era of audits without consequences. The SAO conducted follow-up audits in all focus areas in 2016.

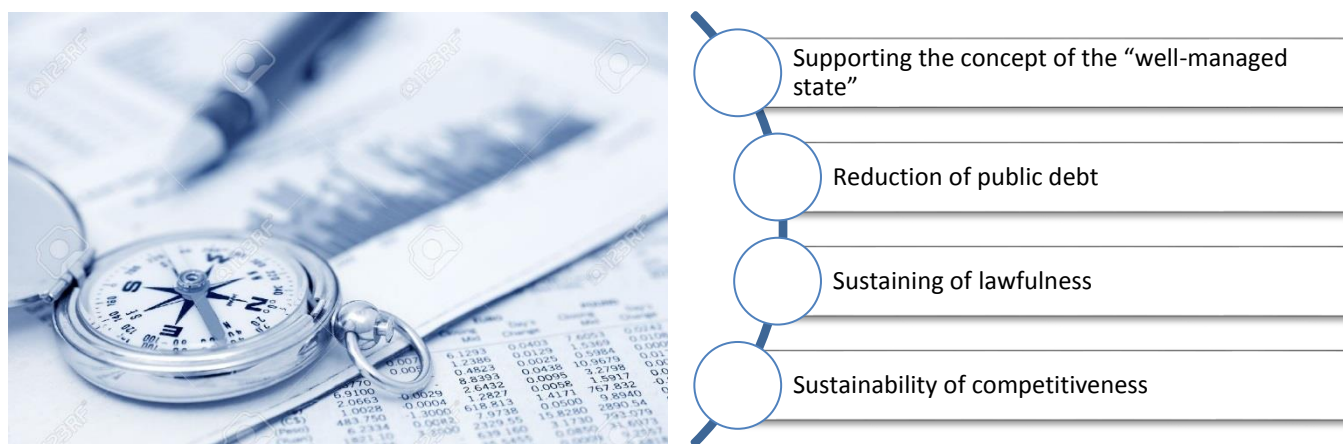


Figure 4



## Presentation of utilisation results

Figure 5



The State Audit Office of Hungary places increased emphasis on the utilisation of its work which is supported by conscious, planned and proactive communication. In terms of the legislative process, it is critical that decision-makers are informed in a timely manner and in the appropriate depth about the long-term socio-economic and fiscal implications and correlations of laws. This is why it is important that Parliament is informed in due course by the State Audit Office in relation to the parliamentary debate of draft bills on the agenda about the experiences of the SAO's audits and analyses, which provide substantiated feedback on the experiences and any potential problems arising in the given area and practice. In addition to these considerations, the communication strategy, built on the principles pertinent to the utilisation of audit work, supports the mission of the SAO, and contributes to achieving the institution's objectives and goals.

Through the SAO findings made available to the legislative process, the aim of the SAO is not just to support the operation of a well-managed state, but also to use the audits and analyses to set in motion positive changes that improve the well-being of citizens.

Figure 6

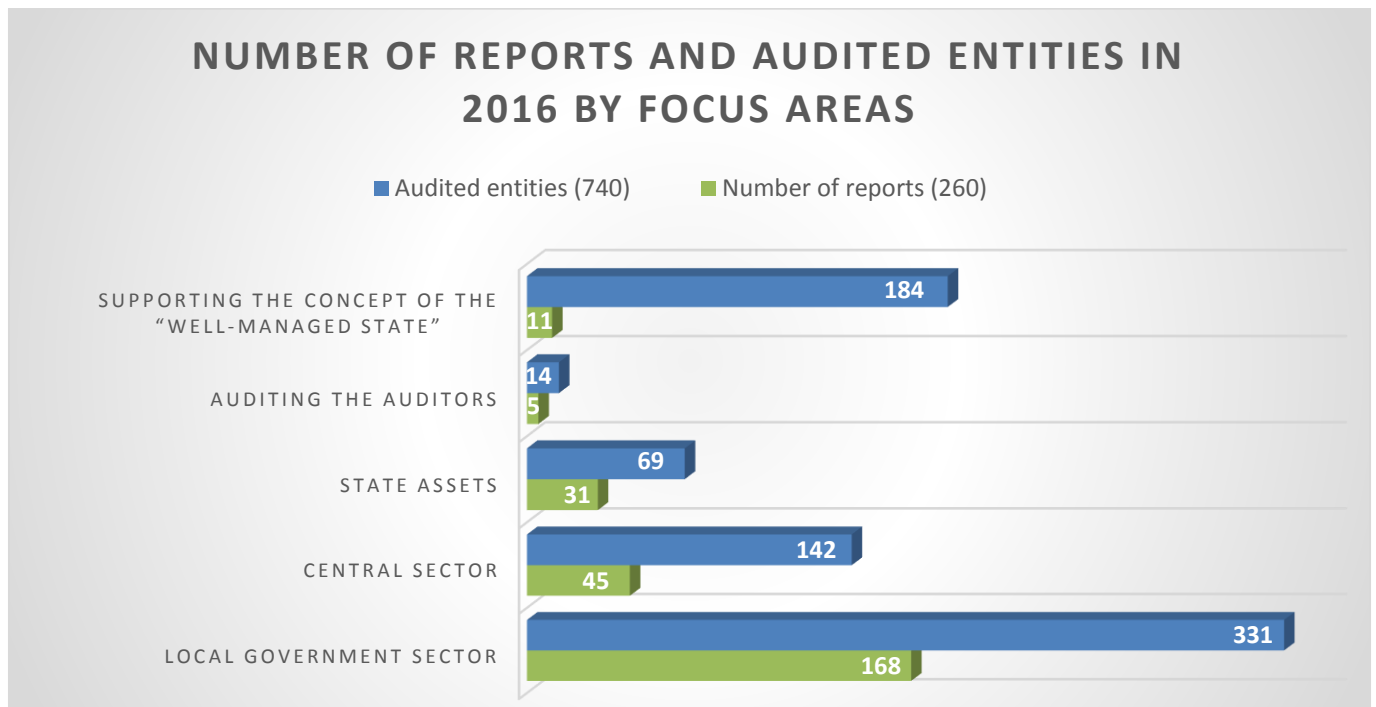
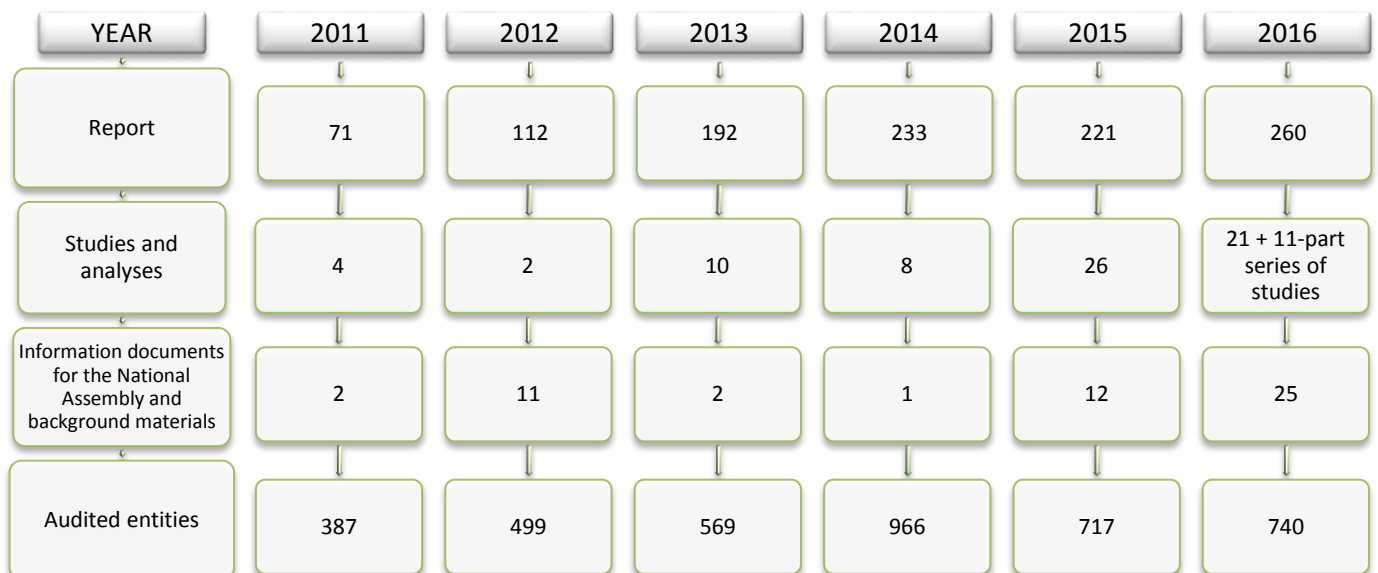


Figure 7

### KEY OUTPUTS OF THE SAO'S WORK BETWEEN 2011-2016



# SAO PROFESSIONAL ACTIVITIES IN 2016

## I. UTILISATION AREAS OF OUR ACTIVITIES

Figure 8



# 1. Utilisation in the work of the National Assembly

## 1.1. Cooperation with Parliament

*The SAO supports legislation by making use of its audit experiences. In the context of liaising between the State Audit Office of Hungary and the Parliament, a cooperation framework was developed with the Office of the National Assembly, which is continually adjusted to the organisational changes of the two institutions. Within the framework of cooperation, the two organisations provide broad-ranging and direct information to each other.*

### What is utilisation?

The ultimate goal of the SAO's activity is to ensure the utilisation of its experiences that may take place through the audited entities taking measures, causing their financial management and operation to change based on the SAO findings. A priority level of utilisation involves the integration of the reported experiences into legal regulations through the legislative work of the National Assembly. In another form of utilisation, the SAO opens administrative procedures based on its findings. The social level is an important element of utilisation, and through our reports we provide information to citizens on how their tax forints are being used.

### OUR PERFORMANCE IN NUMBERS WITH RESPECT TO SUPPORTING THE WORK OF THE NATIONAL ASSEMBLY

42 %	number of occasions when the SAO was mentioned with respect to parliamentary sessions
25	information given to the National Assembly
45	attendance at committee meetings
36	recommendations for bills

### Plenary sessions and committee meetings

In 2016, within the framework of plenary sessions, the SAO's associates attended the general debate on the 2017 budget appropriation bill, the general and detailed debate and final vote on the report on the SAO's activities in 2015, as well as the general and detailed debate on the draft legislation of the 2015 final accounts.

Of the 72 parliamentary sessions, the minutes recorded at 30 sessions made mention of the SAO, in addition to the presidential speech during the debate on the draft legislation of the chamber of auditors, to the opinion provided on the 2017 central budget and to the exposés related to the SAO's report and the draft legislation on the final accounts, which represent a good reflection of the utilisation of the SAO's work.

The 16 committees of the National Assembly held 330 committee meetings, and the SAO's associates attended 45 of such committee meetings. The Committee on Economics of the National Assembly requested the SAO, having regard to the suggestion made by the President of the SAO, to start the processing of the topic related to the justification of the review and analytical evaluation of public auditing methods, and to inform the National Assembly about its related experiences. Accordingly, in November 2016, the SAO provided information to the Committee on Economics of the National Assembly on the methodological renewal of the auditing of public finances. In the SAO's opinion, greater leverage can be achieved in terms of the orderliness of public finances with the alignment of auditing methodologies and with the compilation of such methodologies along the same principles. Consequently, the SAO will review the auditing methods applied by the organisations performing activities as part of the first and second lines of defence, by exercising its general authorisation defined in the SAO Act. The SAO's role is to develop the determinative methodological directions based on international standards for auditor organisations, the practical implementation of which commenced in 2016.

The members of the Committee on Economics were unanimously in support of the continuation of the work started by the State Audit Office. The European Confederation of Institutes of Internal Auditing and EUROSAI considered the cooperation between the SAO and the first line of defence (Institute of Hungarian Internal Auditors) to be exemplary even at an international level, and as a good practice at the same time. The State Audit Office is determined to further enhance its advisory role related to the audits of the first and second lines of defence.

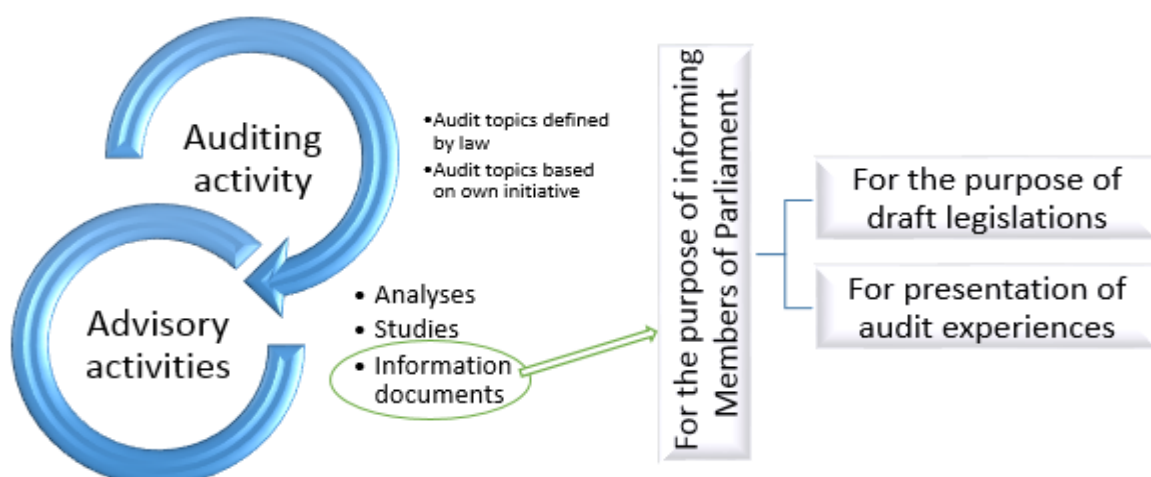
### Legislative programme

In its recommendations prepared for the legislative programmes of the spring and autumn sessions, the SAO called attention to certain already published reports and analyses relating to a specific bill. The SAO forwarded the recommendations to the Speaker of the National Assembly, the deputy speakers, the officials and the committees, as well as the chairpersons of supervisory subcommittees that operate under the committees. The two legislative programmes consisted of 100 draft bills, 36 of which were complemented by recommendations. In the interest of the improved utilisation of reports, the SAO sent 25 letters addressed to committee and supervisory subcommittee chairpersons calling attention to important reports falling within the scope of responsibility of their committees.

### Information materials prepared for the National Assembly

The SAO prepared brief information materials communicating the SAO's messages and summarising audit experiences corresponding to the topics on the agenda of the National Assembly and its committees, and forwarded these to MPs within the framework of its statutory advisory function.

Figure 9



The information documents provided answers to questions that were of interest to the legislators. These answers pointed out, amongst others, what issues require the support of quality legislation for enhancing the country's economic development, and thus for improving the population's quality of life. These brief information documents incorporating the audit experiences gained increasing importance after the introduction of the new scheme of parliamentary sessions.

On the whole, it can be established that the information documents prepared for the National Assembly became a new form of utilisation of the SAO's work, and fulfilled their role, as the speakers started to make references to the findings incorporated therein more frequently.

The spring legislation programme included numerous bills affecting the State Audit Office of Hungary. In 2016, the State Audit Office forwarded information documents to the National Assembly on 25 occasions, whereas this figure was 12 in 2015.

Figure 10



## 1.2. SAO recommendations in legal regulations

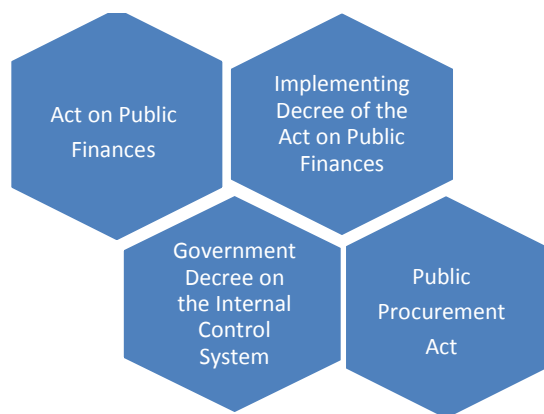
*The amendment of certain provisions set forth in the Implementing Decree (ID) of the Act on Public Finances and in the Government Decree on the Internal Control System and on the Internal Audit of Central Public Administration Bodies (GD) based on our audit experiences represented a special example for the utilisation of the State Audit Office of Hungary’s auditing activity. These amendments contributed to the fulfilment of the constitutional requirement on clarity of legislations and to the transparent and accountable operation of budgetary authorities. Furthermore, the Act on Public Finances and the Act on Public Procurement were amended based on the recommendations made by the SAO.*

The Act on Public Finances stipulates that the detailed internal order and method used by a budgetary authority for performing its duties shall be defined in organisational and operational rules, whereas the detailed order of its financial management shall be specified in internal rules of procedures, and on a related note, the ID lays down what exactly the operational and organisational rules must include, and what specific questions must be addressed by the head of the budgetary authority in such internal rules of procedures.

During its audits, the State Audit Office of Hungary frequently observed the absence of general legal provisions that would have defined the deadline available for newly established budgetary authorities for developing such rules of procedure, and within what period of time a budgetary authority is obliged to update its internal procedures in case of an amendment of law. Accordingly, the SAO, during the public administra-

Figure 11

**SAO recommendations made on the basis of audit experiences as reflected in legal regulations**



tion consultation process, also indicated the need for the amendment of the relevant legislation to those preparing the legislative proposal, within the framework of its legislative review-related activity.

As a result, the ID provisions on the drafting of the procedures applicable to budgetary institutions were amended effective as of 1 January 2017. In this context, the newly established budgetary institutions are obliged to draw up their internal rules of procedures within 30 days of their date of formation, whereas in case of an amendment of law, they are obliged to update the related procedures within 30 days. In addition to the foregoing, the ID was also supplemented by the requirement that the procedures are required to be in the manner that the responsibilities, as well as the procedures for proposal making, authorisation, approval, control and reporting can be established therefrom. The above modifications significantly contribute to the transparent and accountable operation of budgetary authorities, which is a requirement stipulated in the Fundamental Law with respect to the management of public funds.

Again, within the framework of its legislative review-related activity, the SAO was given the opportunity to forward its proposals for the amendment of the GD to the ministry submitting the draft bill, based on its audit experiences. For example, it was frequently observed in the case of local governments that the responsibilities of the notary and the mayor in terms of internal control were not clearly identifiable.

The GD provision related to the amendment of the annual audit plan was supplemented by taking into account the related SAO recommendations, namely in the case of local governments, the internal control officer may modify the annual audit plan subject to the approval of the representative council as of 1 January 2017. Based on another recommendation given by the State Audit Office of Hungary, a relevant provision of the GD was clarified in the manner that an internal auditor may only be employed by the governance body subject to the decision of the representative council.

The Act on Public Finances was amended in the spring parliamentary session, amongst others by having regard to the State Audit Office of Hungary's opinion, so that the deadline of submitting the draft bill on the final accounts was modified to 30 September from 31 August, with a view to ensuring appropriate amount of time for implementing the audit process. The legislator utilised the State Audit Office of Hungary's recommendations based on its audit experiences relating to the amendment of the Act on Public Procurement, which ensured the transparency and accountability of procurements below the public procurement threshold.

## 2. Utilisation on the side of audited entities

### 2.1. Recommendations and action plans based on findings with obligations to take action, warning letters

*As per the SAO Act, one of the requirements set for the audits is that the findings should be based on firm legal grounds and that the conclusions should be reasonable and well substantiated. In order to achieve this goal, the findings with obligations to take action and the related recommendations made by the State Audit Office are taken under review to check whether these are legally substantiated at several stages of the audit process. The State Audit Office operates a separate database for registering the action plans received, and thus for the continuous monitoring of the obligation to take measures, as defined in the SAO Act.*

RECOMMENDATIONS AND OPINIONS INTENDED FOR THE AUDITED ENTITIES	
2232	Recommendation
362	Addressee
471	Reviewed action plans
169	Warning letter

#### What is a warning letter?

As per the SAO Act, in order to eliminate the practices found to be in violation of the law as well as the improper or wasteful use of assets identified during the audit, the President of the State Audit Office of Hungary may send a reminder of the findings to the head of the audited entity, provided that more serious sanctions need not be imposed under law. The head of the entity shall evaluate the contents of this reminder within 15 days (the governing body at its next meeting), take the necessary measure, and notify the President of the State Audit Office of Hungary accordingly.

#### Recommendations based on findings with obligations to take action

In the reports published by the State Audit Office in 2016, the SAO defined a total of 2,232 recommendations based on findings with obligation to take action for the heads of the audited entities.

#### Action plans

Pursuant to the SAO Act, the head of the audited body must develop an action plan in response to the findings in the report prepared by the auditing authority and send that plan to the State Audit Office within 30 days from the receipt of the report.

In 2016, the SAO's supervisory managers processed 471 actions plans in relation to 260 reports, the justified nature of which was examined by a dedicated organisational unit during the reporting period. Pursuant to the SAO Act, the SAO may check the implementation of the action plans drawn up in line with the findings with obligations to take action and the related recommendations included in the auditing authority's reports, within the framework of follow-up audits.

#### Presidential warning letters

The President of the SAO sent 169 warning letters to the heads of the audited entities in relation to the SAO reports issued in 2016. The warning letters were typically intended to call the attention of the heads of the audited entities to operational and/or ad-hoc financial management risks or high-risk areas detected during the SAO's audits, which, in the opinion of the SAO, needed to be addressed for the full enforcement of the protection of public funds. The information provided by the heads of the audited entities on the actions implemented or planned based on the warning letters were utilised by the SAO through its risk assessment system.



## 2.2. Follow-up audits

*The enhanced utilisation of the auditing work was set by the SAO as a strategic objective. In line with this, the organisation may inspect whether the audited entities implemented the action items included in their respective action plans drawn up with a view to eliminating the errors, deficiencies and irregularities observed earlier. The regularly performed follow-up audits contribute to the effective implementation of the required actions, and as a result to the improvement of the orderliness of public finances. The State Audit Office of Hungary places increasing emphasis on follow-up audits.*

### What is a follow-up audit?

Pursuant to the SAO Act, the heads of the audited entities are required to compile action plans pertinent to the findings with obligations to take action and the related recommendations included in the audit reports, and to send those actions plans to the SAO.

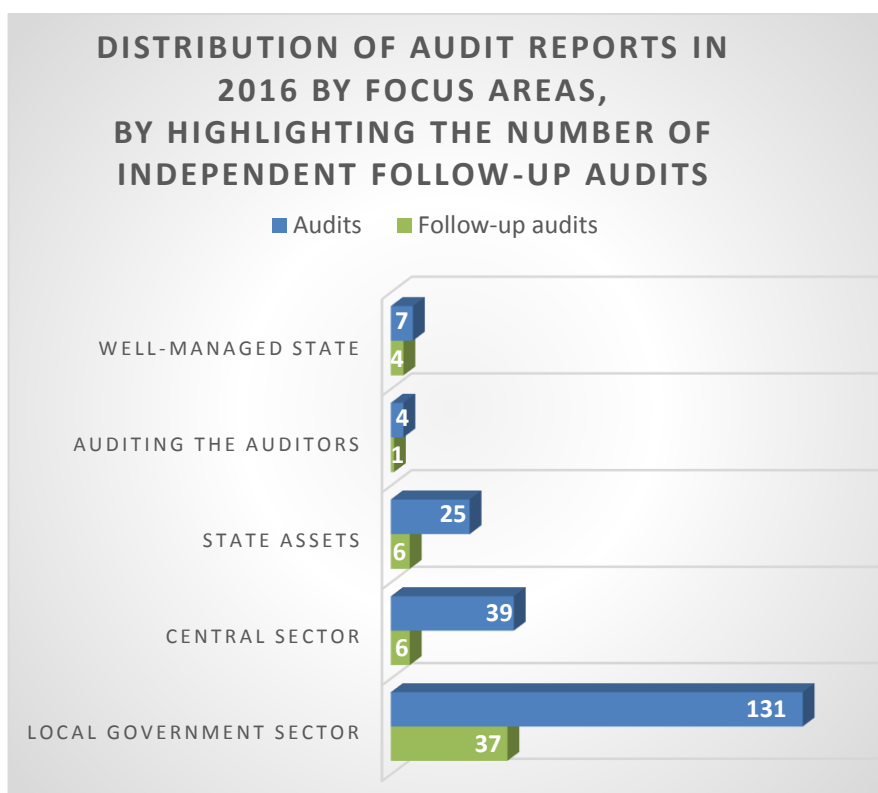
During the course of the follow-up audits, the SAO evaluates whether the tasks defined in the actions plans drafted by the audited entities in harmony with the findings with obligations to take action and the related recommendations included in the audit reports were implemented by

Pursuant to the SAO Act, the heads of the audited entities are required to compile action plans pertinent to the findings with obligations to take action and the related recommendations included in the audit reports, and to send those actions plans to the SAO.

Pursuant to the provisions set forth in the SAO Act, the SAO may inspect the implementation of the items incorporated in the action plans, in the context of follow-up audits. When evaluating the implementation of such actions, the SAO takes into account any change in the audited entity's operating conditions and in the relevant legislations.

Follow-up audits are usually performed by the SAO in the form of independent audit programmes, on which separate reports are drawn up.

Figure 12



In addition to independent follow-up audits, other audit programmes may also include focus questions similar to those incorporated in the follow-up audits. In 2016, seven SAO reports included follow-up audit-related tasks, the majority of which were related to political parties and their associated foundations.

### INDEPENDENT REPORTS ON FOLLOW-UP AUDITS IN NUMBERS

4	Supporting the concept of the well-managed state
1	Auditing the auditors
6	Audits of state property
6	Central sector
37	Local government sector

### 2.3. Legal consequences related to audits

*The State Audit Office of Hungary has a wide range of instruments at its disposal to impact auditees with a view to promoting the economic and regular use of public funds. The SAO Act provides general authorisation for the SAO to inform any external authority competent to act in specific cases with respect to irregularities observed during the audit processes. The launching of administrative procedures is an important audit-related event, although not an objective, and at the same time represents one of the important directions of utilisation. The experiences gained from the administrative proceedings are in support of the auditees' future law-abiding conduct, and prevent the occurrence of deficiencies and irregularities.*

#### INITIATION OF ADMINISTRATIVE PROCEEDINGS

90	notification of investigative authorities
61	notification of the Chamber of Hungarian Auditors
36	initiation of public procurement remedy proceedings
32	notification of government agencies
32	notification of other authorities

The State Audit Office of Hungary keeps records of the administrative notifications initiated by the organisation and their respective effectiveness for the quantifiability of utilisation and for determining the direction of future development.

#### Obligation of cooperation related to data supply

Pursuant to the SAO Act, the audited entity shall make available the data and documents necessary for conducting the audit to the State Audit Office (upon its request without delay, but no later than within five working days). Failure to comply with the obligation of cooperation may entail the launching of the measures specified in Section 33 (3) of the SAO Act.

In 2016, the SAO initiated proceedings on four occasions according to the SAO Act, because the audited entities failed to make available the data and documents required for conducting the audit procedures within the deadline stipulated in the SAO Act.

In the context of cooperation, throughout the year 2016 the SAO continued to make efforts for ensuring possibility for the audited entities to meet the SAO's request for data supply in more than one step.

#### Notification of investigative authorities

Pursuant to the SAO Act, if during the audit process the State Audit Office has grounds to suspect a criminal offence, it shall notify the competent authority of its findings without delay. In the case of other illegal acts, it may initiate the clarification and enforcement of liability.

In 2016, the SAO notified the competent investigative authorities in 90 cases. The SAO sent notifications to the investigative authorities based on its audit processes in the following breakdown: 33% in relation to museums, 25% with respect to local governments, 17% for the institutions of the central subsystem, 14% with respect to economic operators and 11% in case of other organisations.

In recent years, the SAO performed the inspection of sectors and organisations that have never been audited before. In the absence of previous auditing activity, a higher number of irregularities were observed in the case of these organisations. At the same time, it also indicates the fact that the SAO's risk assessment activity effectively scanned such groups of public sector organisations where the conducting of audits proved to be justified.

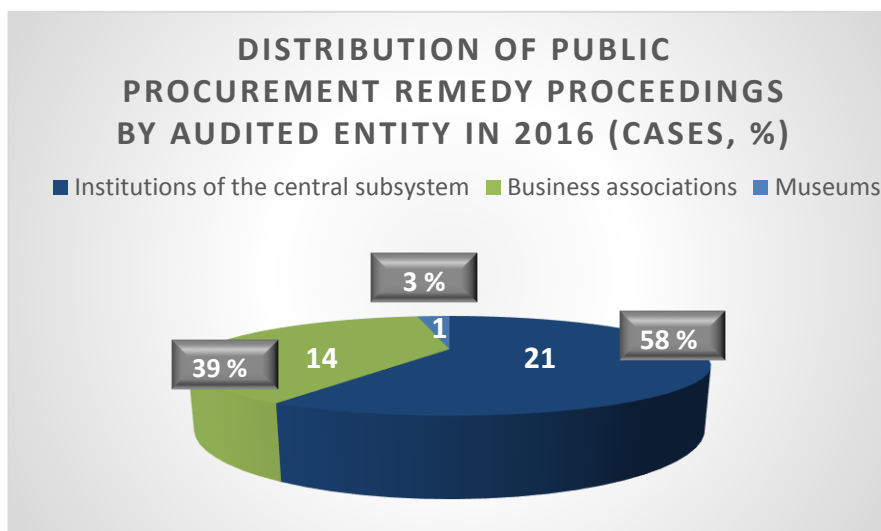
Currently, there are 100 cases in progress – also covering previous years – placed under investigation on the basis of notifications by the SAO to the investigative authorities. Investigations were typically ordered on

rounds of suspected mismanagement of funds, violation of accounting principles, and committing budgetary fraud.

### Opening of public procurement legal remedy proceedings

In 2016, the SAO initiated the opening of public procurement legal remedy proceedings with the Public Procurement Arbitration Board in 36 cases.

Figure 13



Effective as of 1 January 2015, the provisions set forth in the Act on Public Procurement were amended. From the above mentioned date, the subjective deadline available for launching legal remedy proceedings was extended from the previously applicable 30 days after learning of the infringement to 60 days, while the objective deadline, in certain cases, was extended from the previously applicable three years to five years. As a result, there is more time available for initiating legal remedy proceedings, which supports the enforcement of the consequences of audits. Furthermore, the SAO extended its auditing activities to previously unaudited organisations (for example hospitals, museums) where the audit processes uncovered a high number of public procurement irregularities, on the basis of which the Public Procurement Arbitration Board was required to be notified.

In the legal remedy proceedings opened in the case of public procurement irregularities, violations were established in numerous cases and fines were imposed in excess of HUF 34 million. All this supports the legal execution of purchases among the organisations subject to the Act on Public Procurement and the transparency of the spending of public funds.

### Notification of the Chamber of Hungarian Auditors

In 2016, primarily during the audits of economic operators, the Chamber of Hungarian Auditors was required to be notified on 61 occasions due to auditing irregularities detected at the audited entities.

### Notification of government agencies

In relation to the audit of local governments, the SAO notified the competent capital and county government offices responsible for the legal compliance supervision of the respective local government in 32 cases

(30 cases of which were related to local governments, while in 2 cases it affected minority self-governments). The reason for the notifications was the fact that the findings of the auditors could be best remedied by the capital and county government offices concerned, as they are responsible for the legal compliance supervision of the local government and by virtue of their supervisory role they have more direct and therefore more efficient tools available than the SAO.

### **Other notifications**

In addition to the investigative authorities, the Public Procurement Arbitration Board, the Chamber of Hungarian Auditors, and the government offices responsible for legal compliance supervision, the SAO also notified other authorities and advocacy organisations based on its audit findings.

We notified the Hungarian Energy and Public Utility Regulatory Authority in 5 cases. The utilisation of our notifications involves a two-way process. On the one hand, it serves to eliminate the irregular practice developed in relation to the public service charges applied by waste management and district heating service provider companies, and on the other hand the notifications were justified for protecting and enforcing the rights of the population using such public services.

We sent notifications to the National Authority for Data Protection and Freedom of Information on two occasions for the purpose of protecting the rights of citizens. The grounds for our notifications was on the one hand the violation of the right to the protection of personal data, and on the other hand non-compliance on behalf of the local governments with the disclosure obligation stipulated by the Act on Informational Self-Determination and Freedom of Information.

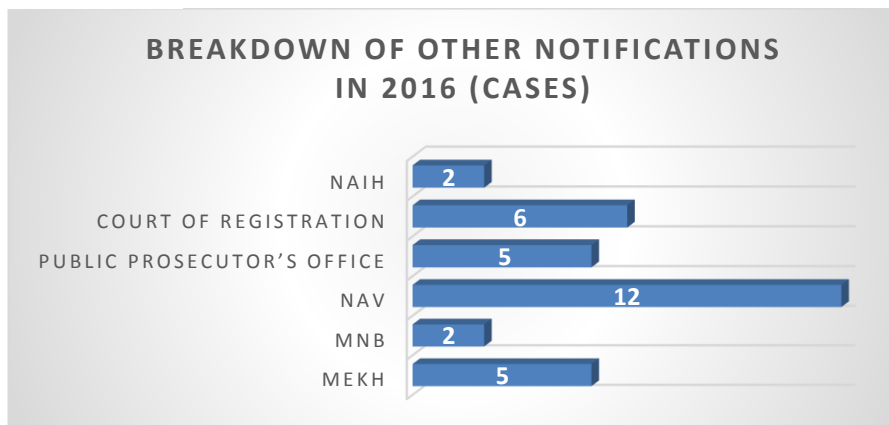
In order to contribute to the protection of public interest, we turned to the competent Public Prosecutor's Office on five occasions. The aim of our notifications related to the functions of the Public Prosecutor's Office promoting the protection of public interest is to ensure that the documents pertinent to the legal status of non-governmental organisations and public bodies follow uniform patterns and are compliant with legal regulations and to restore the legitimate functioning of said organisations.

We notified the National Tax and Customs Administration on 12 occasions for issues arising from invoicing and taxation problems and from the failure to submit asset declarations.

We sent notifications to the National Bank of Hungary, acting as the authority supervising financial organisations, on two occasions as a result of irregularities observed at the financial institutions.

Six notifications were filed to the Court of Registration. As a result of our notifications, the audited entities in question were given the possibility to restore their legitimate operation. It is important for the utilisation of our notifications from a general societal point of view that the changes affecting the data stored in public registers contribute to the security of the economy's turnover and to the enforcement of the protection of creditors' interests, which are of significant importance in terms of the entrepreneurs' constitutional rights.

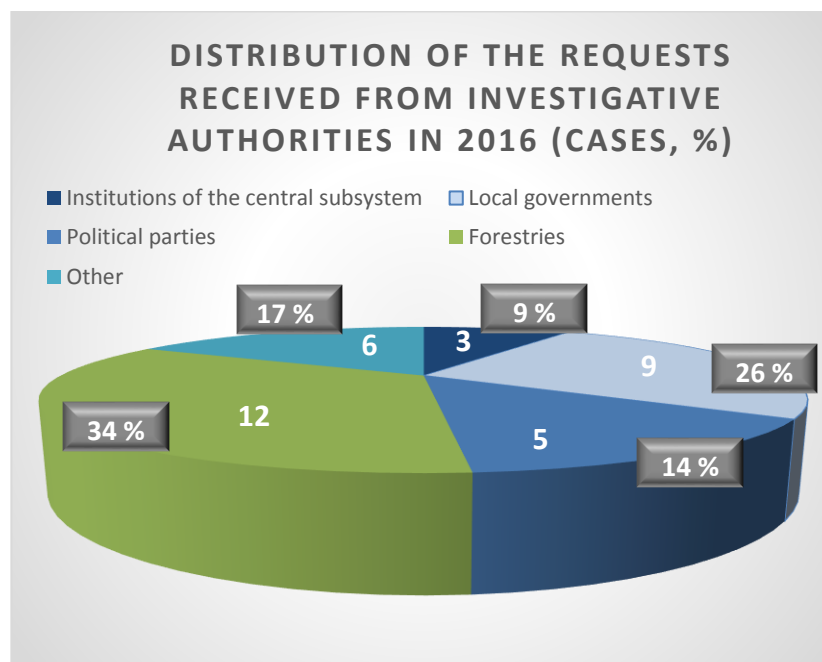
Figure 14



**Cooperation with investigative authorities**

Pursuant to Act XIX of 1998 on Criminal Proceedings, the court, the prosecutor and the investigative authority may contact central and local government agencies, authorities, public bodies, economic entities, foundations, public foundations and associations to request the supply or transmission of information, data or documents. In 2016, the SAO responded to 35 official requests from investigative authorities, through which it provided substantial assistance to the investigative authorities conducting the criminal proceedings by forwarding the documents that were at our disposal.

Figure 15



### 3. Information supply and advisory function - areas of societal utilisation

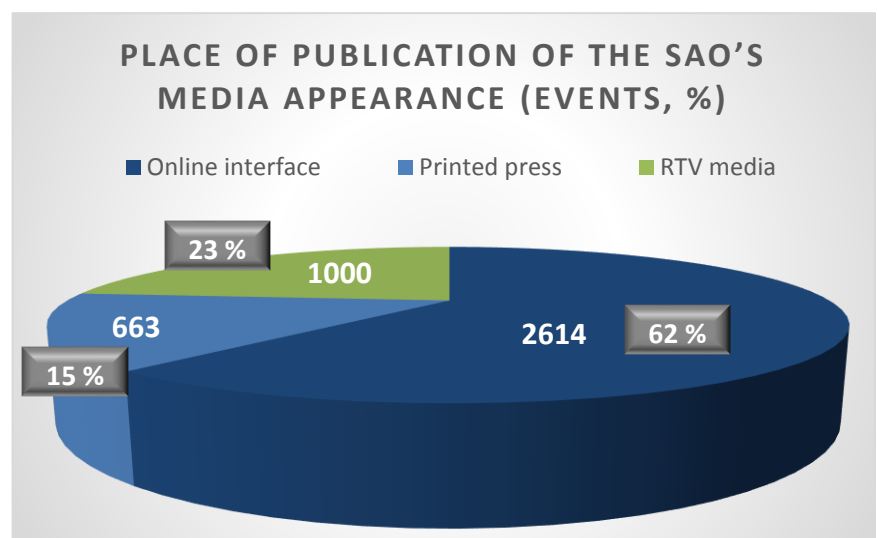
#### 3.1. Information provision at the level of society

*A new utilisation management concept has been developed for more targeted and better oriented audits by the supreme audit organisation. During the period under review, the SAO performed consciously planned, proactive communication activities, within the framework of which it implemented the evaluation of the indications given by the institutions', and processed the utilisation events in the form of analyses and studies.*

##### Social utilisation

The SAO's activities were characterised by extensive utilisation. In addition to publishing its reports on its website, in 2016 the SAO held seven conventional press conferences and another 54 electronic press conferences to inform regional and local media in relation to 148 audit reports. During the course of electronic press conferences, the SAO notifies geographically competent county media affected by the relevant audits, and grants them the opportunity to ask questions by email or phone. The institution published 22 official press releases on its website and within the National Press Service system of the Hungarian News Agency. In 2016, the various media platforms published news articles pertinent to the State Audit Office of Hungary on 4,277 occasions in total. 2,356 news items (55%) were published through active communication, i.e. these were supplied directly by the SAO, while mention was made about the organisation through passive communication on 1,921 (45%) occasions, however, in these cases communication was not actively initiated by the SAO. 2,614 news items were published via online platforms, another 1,000 by radio and television media, while 663 were published in the printed media.

Figure 16



**OUR PERFORMANCE IN  
NUMBERS WITH RESPECT TO  
COMMUNICATION**

<b>4277</b>	News in the media
<b>2027</b>	News items on the SAO News Portal
<b>54</b>	electronic press conferences
<b>7</b>	traditional press conferences
<b>22</b>	Press release

To visit the Public Finance Quarterly website, please click on its name in the box

[Public  
Finance  
Quarterly](#)

### Online communication

The SAO News Portal ([www.aszhirportal.hu](http://www.aszhirportal.hu)) allows an insight into the institution's everyday work and in doing so makes the publicly funded office's operation outstandingly transparent even by international standards. Visitors can track audit processes through the various audit phases from planning and topic selection to utilisation.

In 2016, SAO staff members published a total 1,760 new articles in Hungarian on the news portal. The number of articles published increased by more than 25% compared to the previous year, while page views on the SAO News Portal exceeded 400,000. A total of 267 articles were published in 2016 on the international sites (in English, German and French) of the SAO News Portal.

The numbers recorded in 2016 show that the State Audit Office of Hungary continually, and to a large extent, ensured transparency with respect to its everyday work and activities.

### Academic utilisation

The SAO publishes an up-to-date financial periodical pursuant to the requirement set forth in Resolution No. 43/2005 (V.26.) of the National Assembly. Public Finance Quarterly, an impact factor public finance journal is published by the State Audit Office of Hungary in close conjunction with the Public Finance Quarterly Online website. In 2016, four new issues were published of its printed version, which focused on renewed central bank policies, public procurements, the relationship between public finances and the new Hungarian Fundamental Law, as well as on money and money creation.

For the purpose of the academic utilisation of the State Audit Office's work, we published our experiences gained from auditing, research and analysis in the fields of significant public interest (performance and effectiveness, public sector management, risk analysis and risk management, budget/sustainability/stability, the Fundamental Law and financial awareness) in the form of scientific publications.

## 3.2. Supporting the SAO's advisory activity

*It is an important mission of the SAO to leverage its audit experiences to support the auditees and the potential audited entities in the context of its statutory advisory activity.*

*As part of its advisory activity, the State Audit Office of Hungary published 21 analyses and studies, as well as an 11-part series of studies in 2016. In its analyses, the SAO refrains from communicating audit findings, instead casting light on correlations and impacts. Its goal is to call the attention to risks inherent in the given field, and to show good practices as well.*

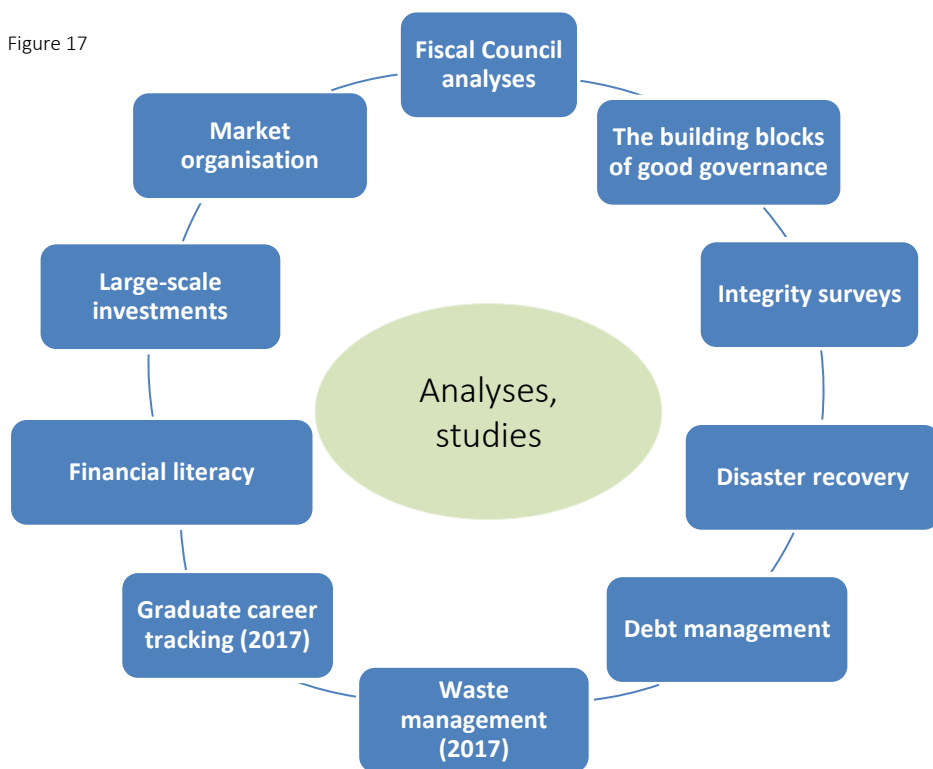
*In addition to its analyses, studies and information documents drawn up for the National Assembly, the SAO also shares its experiences with the wider professional audience at conferences, seminars, consultation forums and in trainings.*

### Analyses, studies

The SAO's analyses drawn up in 2016 were focused on a number of different topics presented in Figure 17. The analyses and studies prepared

in 2016, but published by or before the compilation of the organisation's report in 2017 are also included in the above figure.

Figure 17



Further information is given on each analysis and study in the chapters of the report focused on the given topic.

### Knowledge sharing at conferences and seminars

Given its advisory and analytical function, the State Audit Office of Hungary does not just support the work of the National Assembly, but also provides support to potentially audited entities in compliant operation.

The Hungarian and international industry conferences organised by the SAO were attended by more than 500 registered guests, who represented over a hundred organisations using and managing public funds.

After two successful series of events, 2016 marked the third time that the State Audit Office of Hungary once again organised the now customary **INTERNATIONAL INTEGRITY SEMINAR**. The aim of the seminar is to share our experiences gained in the fight against corruption with experts of other countries, primarily delegated by the supreme audit institutions of developing countries. The focus topic of the event was the inclusion of the aspects of integrity in public finance-related audits. Attendees of the seminar (which has been organised annually since 2014) included close to 90 experts delegated by the supreme audit institutions of approximately 40 countries.

In the context of the International Integrity Seminar, in February we organised an international conference entitled “*Hungarian Support in the Global Fight Against Corruption*” on the occasion that the Hungarian Government contributed HUF 129 million to the international fight against corruption upon the professional initiative of the State Audit Office of Hungary, with a view to implementing Resolution No. 41/2013 (V.27.) of the National Assembly on the approval of the 2012 report of



KEY INDICATORS OF THE SAO'S ADVISORY ACTIVITY	
21	analyses and studies
11	-part series of studies
25	information given to the National Assembly
5	conferences
20	effective cooperation agreements
6286	downloads of self-tests until 31 December 2016
9	exchanges of experiences with local government associations and the Church
50	professional presentations given by SAO associates

the State Audit Office. By entering into the agreement between the government and the INTOSAI (International Organisation of Supreme Audit Institutions) Development Initiative (IDI), Hungary has become part of the global fight against corruption, and the related international seminar provided an opportunity for knowledge-sharing and for the global dissemination of "good practices". In addition, at the request of IDI the SAO delegated an expert to take part in the international organisation's anti-corruption programme.

It reflects the international recognition of the SAO's integrity project its President was requested to present the SAO's experiences at an international symposium, beside several other renowned SAI presidents and international experts. Furthermore, the SAO's representative also shared the SAO's related experiences at the meeting of the EUROSAI's Audit and Ethics Committee.

On 13 October 2016, the State Audit Office of Hungary organised a conference entitled "The Building Blocks of Good Governance – Five Years of the Fundamental Law". Speakers at the full capacity event included the former President of the Constitutional Court, Governor of the National Bank of Hungary, the Chairman of the Fiscal Council, the Rector of the National University of Public Service and Chairman of the State Reform Committee as well as the SAO President and their respective presentations focused on the effects of the new Fundamental Law and the related cardinal acts on Hungary's public finances and on the constitutional frameworks of a well-managed state. The roundtable discussions following the presentations saw participants discuss the correlations between a well-governed state and the whitening of the economy.

On 17 November 2016, at the conference "5 Years of Anti-Corruption Cooperation" the senior officers of the Ministry of the Interior, the National Office for the Judiciary, the Curia, the Office of Prosecutor General and of the State Audit Office of Hungary jointly evaluated the achievements of the fight against corruption in the past five years. On the occasion of the anniversary of the ratification of cooperation agreement dated 2011, the Public Procurement Authority and the National Bank of Hungary expressed their intention to join the framework.

The State Audit Office of Hungary held its regular year-end conference for the sixth time on 15 December 2016, dealing with the results of the survey on financial literacy. The event featured a presentation about a study into the financial literacy of secondary school students and adults, and the experience and results of the pilot adult education programme entitled "Responsible Financial Management – the Basics of Economy, Finance and Public Financing".

In May 2016, the "GOOD PRACTICES" SEMINAR SERIES continued with the seminar "Good Practices – The Integrity Status of State-Owned Companies in Focus". At the seminar attended by close to 100 managers of state-owned companies, the SAO presented the SAO study on mapping out the corruption risks and immunity of state-owned companies, and also explained why the renewal of public sector management was justified. Furthermore, the conference hosted the discussion of topics such as ethical management, efficient governance-management, as well as the relationship between the state as owner and the members of corporate management.

Figure 18



The "Good Practices" seminars launched at the end of 2010 were complemented in 2013 by a 20-location conference series jointly organised by the SAO and the Ministry of Public Administration and Justice, with the collaboration of the Institute of Hungarian Internal Auditors and of Government Offices. This comprehensive local government-specific training programme was conducted both in Budapest and in all the 19 counties of the country.

### Knowledge-sharing within the framework of cooperations and consultations

In keeping with its strategic objectives, the State Audit Office of Hungary has developed an extensive cooperation network over the past five years, which makes it unique amongst the other public institutions. The network has significant professional/scientific and utilisation potential. The quality and content-driven development of the agreements continued throughout 2016, during the course of which the SAO's network of cooperation was expanded with two higher education institutions.

In support of the SAO's advisory activity, in 2016 the heads of six national local government interest groups consulted with the President and Vice-President of the SAO with regard to current issues affecting the subsystem of local governments.

The SAO's management received the delegations of the Historical Churches of Hungary within the framework of customary professional meetings, which were mostly focusing on the experiences gained from the self-tests completed by the ecclesiastical institutions, the concept of continuous knowledge sharing and the development issues related to institutions being in ecclesiastical ownership.

The *INTERNATIONAL RELATIONS AND ROLES* of the SAO ensure knowledge transfer, and the experiences obtained this way become integrated into the auditing work. Within the International Organisation of Supreme Audit Institutions (INTOSAI), the SAO participates primarily in the work of the subcommittees in charge of methodological development, while it has been participating as a member or observer in all working groups of EUROSAI, the European organisation of SAIs, since 2014, and it is also represented in several working groups functioning within the EU Contact Committee.

One of the most effective means of sharing experiences internationally is participation in **COOPERATIVE AUDITS**, therefore, in 2016 the SAO has kept track of all newly launched international audits and has become involved in several cooperative audits. As coordinator, the SAO participated in the execution of the cooperative audit launched by the EU Contact Committee within the Network on Europe 2020 Strategy Audit entitled “Good practices of graduate career tracking”, which was implemented with the participation of the Romanian and Bulgarian SAIs. In cooperation with the Croatian and Macedonian SAIs, the SAO conducted a parallel audit entitled “Auditing of tourism development measures”. A joint publication was signed in February 2016.

The SAO’s presidential delegation attended the INCOSAI XXII where the main theme was how INTOSAI can contribute to the UN 2030 Agenda for Sustainable Development, including the questions of good governance and the strengthening of the fight against corruption.

At the INCOSAI, an agreement was reached that the SAO would organise a workshop in Budapest during the spring of 2017 for streamlining the international experiences related to large-scale investment projects.

### *What are self-tests?*

Self-tests comprise a questionnaire completed voluntarily by the stakeholders for their own utilisation, designed in consideration of a given operational and regulatory environment and the features of specific tasks for the purpose of supporting the assessment and evaluation of the task performance of organisations and institutions using public funds, along with the regularities of their internal control systems. Self-tests allow respondents to formulate a view of the regularity of their own operation and the state of their own control mechanisms; they can be used effectively to explore defects, deficiencies and risks and to identify the possibilities for correction.

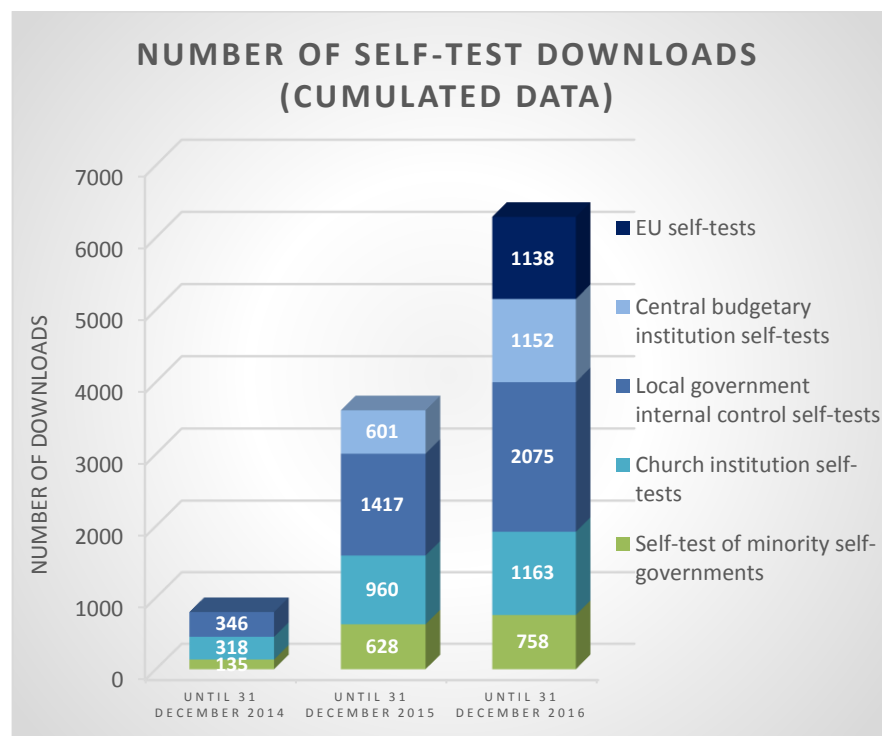
### **Self-tests**

A scheme of self-tests was developed in order to ensure that the SAO’s audit experiences are utilised by the widest possible circle of the entities involved in the management of public funds. Self-tests are completed on a voluntary basis and are utilised by the respondents themselves. Their aim is to allow respondents to formulate a view of the regularity of their own operation and the state of their own control mechanisms; they can be used effectively to explore defects, deficiencies and risks in the functional and task performing environment, and to identify the possibilities for correction.

In 2014, the SAO developed self-tests for the internal control of local governments, for minority self-governments and for church institutions. In April 2015, the scope of the self-tests was extended to cover the operation of central budgetary institutions, while in the spring of 2016 it was further expanded by self-tests supporting the utilisation of European Union funding. In 2016, the SAO carried out a review process on the previously developed self-tests with a view to updating those, and to ensuring their continuous applicability. Stakeholders have downloaded the self-tests in increasing numbers since their publication on the SAO website, which demonstrates the effectiveness of their utilisation.

Figure 19 shows the number of downloads for the entire period since their first publication.

Figure 19



## II. FOCUS AREAS

### 1. Supporting the concept of the “well-managed state”

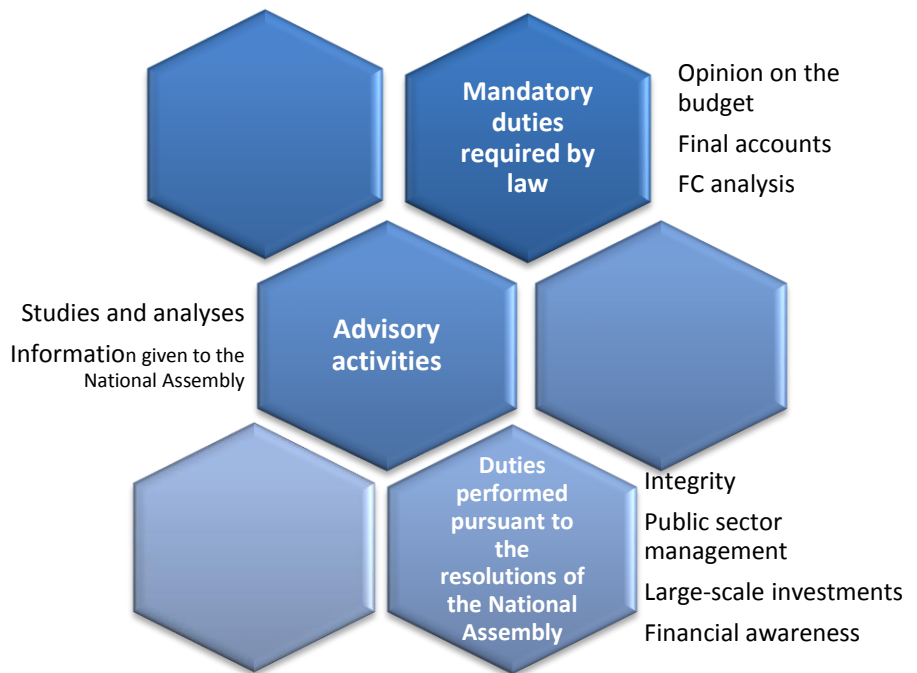
*In accordance with its strategy, the mission of the State Audit Office of Hungary is to promote the transparency and regularity of public finances with its value creating audits performed on a solid professional basis, thus contributing to the concept of the “well-managed state”. By now, good governance has become a concept that can be described with a complex set of criteria against which the performance of individual economic policies and state organisations can be measured. Moreover, the SAO Act provides for the supreme audit institution’s contribution to the functioning of the well-managed state.*

*Among the activities of supreme audit institutions, the promotion of good governance has gained an increasingly important role even by international standards, and all this also determines the themes evolving in the context of international knowledge transfer. International organisations have started to emphasise with increasing frequency that supreme audit institutions are the key guarantors of good governance.*

*The role of supreme audit institutions in supporting good governance has not been explained so far by means of a comprehensive model. Consequently, in consideration of its mandate and the duties enshrined in the new legislation, the State Audit Office of Hungary has constructed a model to provide an overview and a classification of the contribution of supreme audit institutions to good governance.*

Figure 20

OUR ACHIEVEMENTS IN NUMBERS - SUPPORTING GOOD GOVERNANCE	
11	SAO reports
9	analyses and studies
11	-part series of studies
20	information documents prepared for MPs



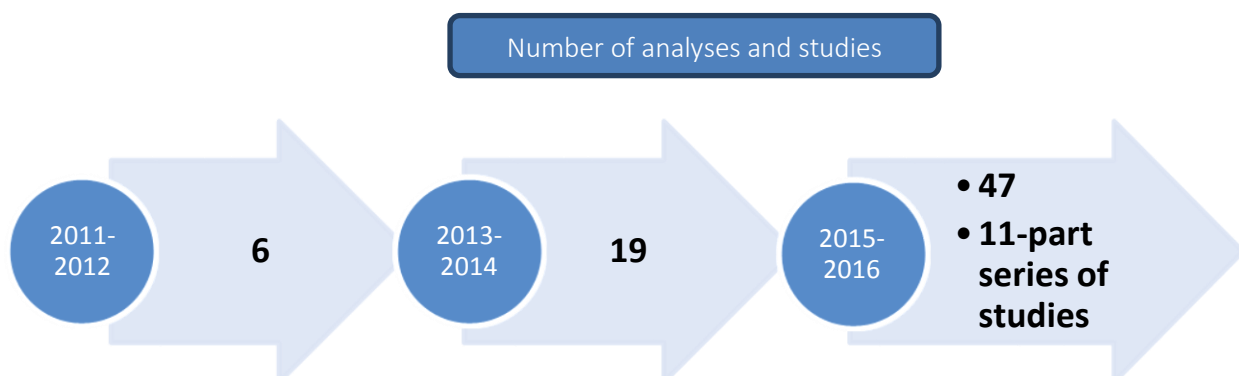
### 1.1. Studies and analyses in support of the concept of the “well-managed state”

*The SAO prepares studies and analysis in support of the well-managed state focusing on diverse and increasingly widespread topics. In a country where more than half of the GDP reflecting the results of economic competitiveness is redistributed by the state, it is of primary importance that audits are focused on the regular, effective and efficient utilisation of public funds. The SAO’s studies, among others, seek to explore the ways in which the audits of the SAO can exert the most positive impact possible on the denominator of general government debt, i.e. GDP developments.*

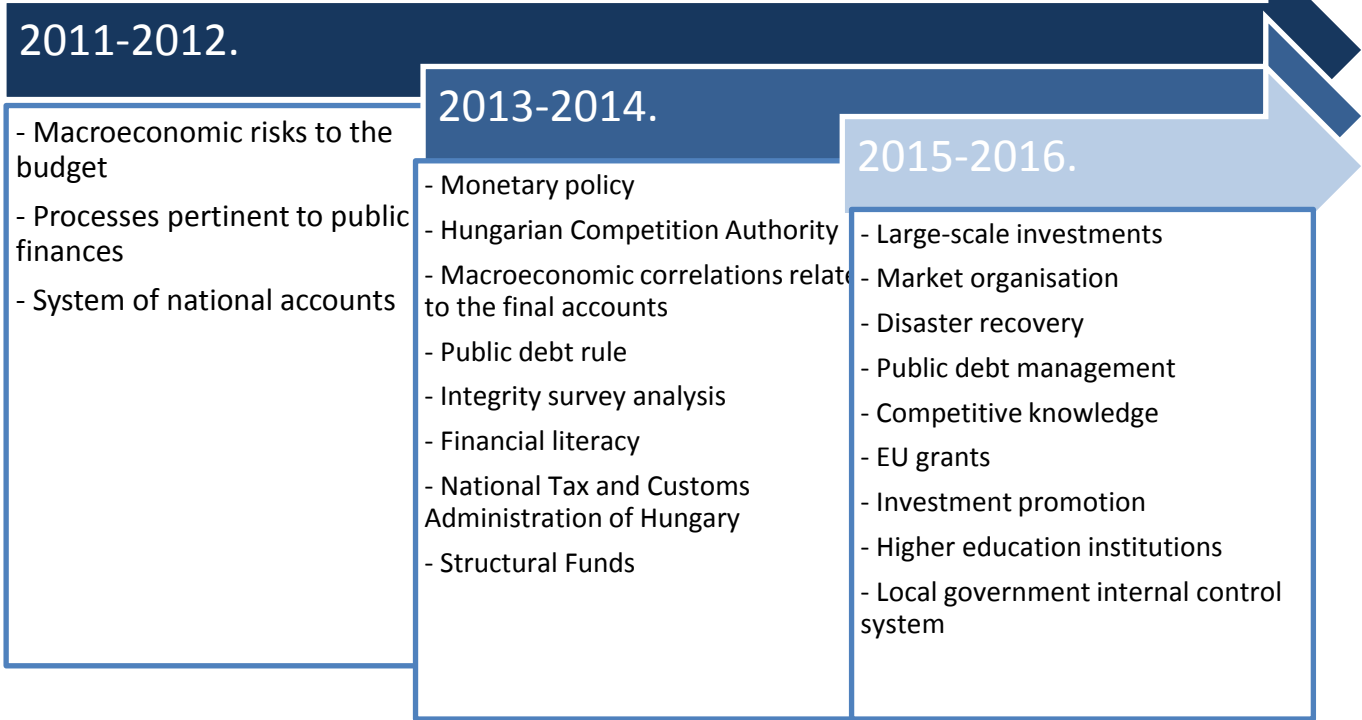
*Furthermore, pursuant to Section 5 (13) of the SAO Act, the SAO draws up analyses and studies in relation to the duties performed by the President of the State Audit Office of Hungary (SAO) as a member of the Fiscal Council (FC). The FC is assisted in performing its tasks by having access to such documents.*

The number of the analyses and studies kept increasing in parallel with the continued expansion of audit topics, as illustrated by Figure 21.

Figure 21



New topics for analysis



**Series of studies, “Building Blocks of Good Governance – The Supreme Audit Institution, the State Audit Office of Hungary in Focus”**

The parts of the series of studies can be downloaded by clicking on “Series of Studies”, or from the SAO website by using the following link:  
<https://www.asz.hu/hu/a-jo-kormanyzas-epitokovei>

**Series of studies**

In addition to all this, on the occasion of the 5th anniversary of the Fundamental Law and the new SAO Act, the State Audit Office published an 11-part series of studies entitled “*Building Blocks of Good Governance – The Supreme Audit Institution, the State Audit Office of Hungary in Focus*”. The series of studies primarily analyses the role of supreme audit institutions in the promotion of good governance, and defines the criteria, principles, requirements, instruments and scopes of influence and the results of good governance. In addition to the above, the series of studies also examine to what extent the State Audit Office of Hungary fulfilled the requirements stipulating support for good governance, and provide analyses of the supreme audit institution’s activity by making international comparisons.

Figure 22

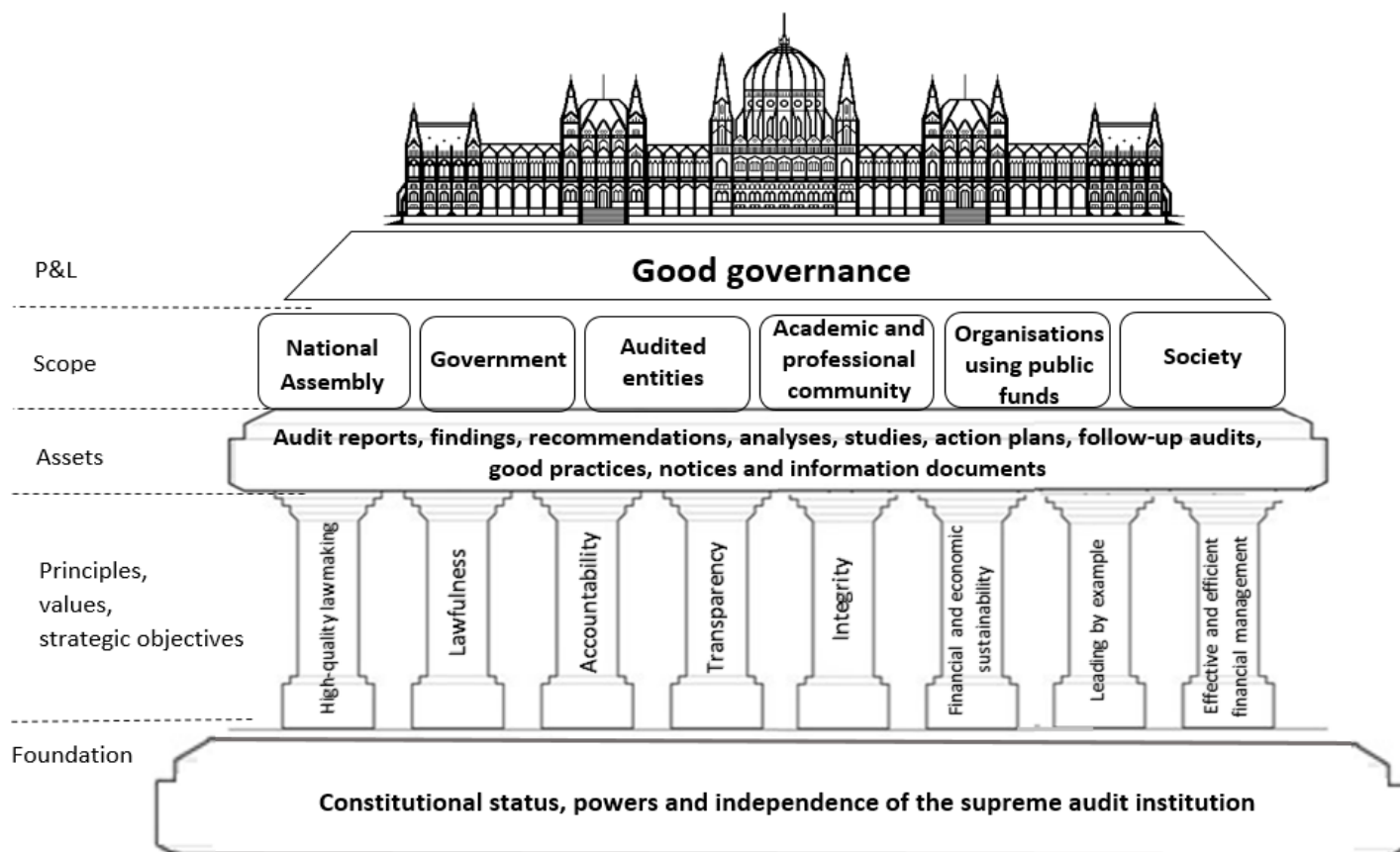


The aim of the State Audit Office of Hungary, as a model organisation, is to share “good practices” both in Hungary and abroad, whereby we not only aim to support good governance, but also to shape attitudes about the state and public life and to improve public thinking.

Figure 23

### Contribution of supreme audit institutions to good governance

*Hungarian model*



### Supporting the work of the Fiscal Council

The SAO analyses drawn up in support of the work performed by the Fiscal Council are available by clicking on the titles of the analyses under the section referenced in the highlighted Annex number or can be downloaded from the SAO website ([www.asz.hu](http://www.asz.hu)).

**Annex II,  
Section 1**

In 2016, the State Audit Office of Hungary continued to support the work performed by the Fiscal Council by preparing analyses. In this context, it provided the following analyses to the Fiscal Council:

- Aspects to be considered by the Fiscal Council in formulating its opinion on the 2017 budget appropriation bill of Hungary
- Opinion on the 2017 budget appropriation bill of Hungary
- Aspects to be considered by the Fiscal Council in formulating its opinion for the final vote on the 2017 budget appropriation bill of Hungary
- Analysis for the Fiscal Council on the budgetary processes in the first half of 2016
- Analysis on the macroeconomic correlations of 2015 budgetary processes, in relation to the audit of the final accounts
- Study for the definition of the focal points and aspects of the SAO’s audit on the state’s market organising role

- The operation of the debt management system of public finances - The role and performance of the Government Debt Management Agency

### **Study for the definition of the focal points and aspects of the SAO's audit on the state's market organising role**

The study is available by clicking on the highlighted publication number or can be downloaded from the SAO website ([www.asz.hu](http://www.asz.hu)).

[T/402](#)

The SAO study seeks to answer the question as to what aspects of expedience, relevance and effectiveness, as well as what focus areas should be used during the audits related to the state's market organising role.

After an introductory chapter on theoretical and historical background information, the study describes what market organising activities are performed by the state, and what amount of public funds and public assets are used for that purpose, by using three specific areas as examples (public water utilities, waste management and external economic sector).

The state's market organising activity is interpreted by the study as an active conduct demonstrated on behalf of the state, in the course of which the state acting as customer, funding body, producer and regulator, in part, creates the market's operating conditions fulfilling societal expectations, in some cases even by partially restricting market mechanisms, by way of utilising public funds and/or public assets.

The SAO's study outlines a framework that is suitable for defining the aspects to be applied during the course of SAO audits. In the context of such framework, the study poses the question as to what end the state applies and expands its activities to a specific field of the economy, and what results it hopes to achieve and what tools and instruments it wishes to use to accomplish these results.

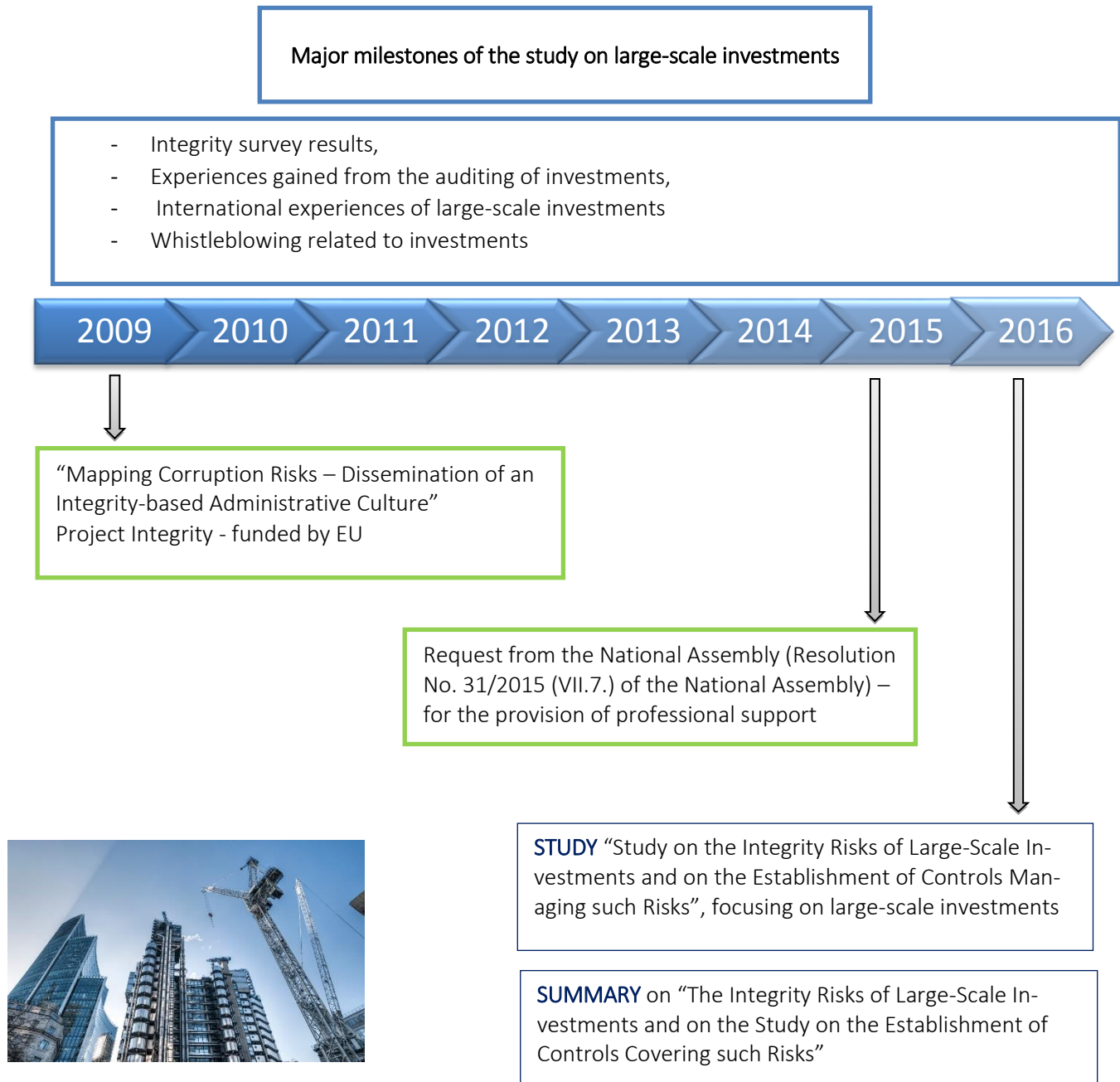
The SAO presented its study at the meeting of the Committee for Enterprise Development of the National Assembly. In addition, the study was also forwarded to the members of the Fiscal Council and to the ministries concerned.

### **Study on the integrity risk of large-scale investments and on the establishment of controls managing such risks**

In its Resolution No. 31/2015 (VII. 7.) on the promotion of the bid for the 2024 Summer Olympic and Paralympic Games to be held in Budapest, the National Assembly requested the State Audit Office of Hungary to provide professional support for the preparation of the bid and concerning related expenses incurred in case of hosting the event to contribute to the lawful, professional, economical and efficient use of public funds.



Figure 24



The study is available by clicking on the highlighted publication number or can be downloaded from the SAO website ([www.asz.hu](http://www.asz.hu)).

**T/405**

A study on “*The Integrity Risks of Large-Scale Investments and on the Study on the Establishment of Controls Covering such Risks*” was prepared with a view to implementing the relevant resolution of the National Assembly. The study was forwarded by the President of the SAO to the National Assembly on 6 May 2016, and was then sent to the heads of the competent government bodies, and eventually published on the SAO’s website. In view of the fact that the Municipality of Budapest, in conjunction with the Hungarian Olympic Committee, withdraw their bid to host the 2024 Summer Olympic and Paralympic Games at its extraordinary general meeting of 1 March 2017, the SAO ended its supporting activities related to the preparations for and hosting of the Olympic Games. However, the SAO continues to provide support for the organisation implementing large-scale investments.

### Analysis on the functioning of the new disaster management system

The study is accessible by clicking on the highlighted publication number, or can be downloaded from the SAO website (www.asz.hu).

[T/411](#)

The floods on River Tisza that hit Hungary in 2010 causing billions worth of damage, and then the red sludge catastrophe claiming the lives of ten people in Ajka in the same year directed the State Audit Office of Hungary's attention to the shortcomings of disaster management in Hungary. In May 2011, the State Audit Office of Hungary published its report entitled "Audit of the systems set up to prevent and avert natural disasters and to eliminate their consequences", in which it recommended that the government should transform the regulatory, organisational, functional and financing system, and should adopt the relevant, internationally accepted set of rules. These recommendations by the SAO were integrated into the fundamental principles of the Act on Disaster Management that entered into force on 1 January 2012. The system proved to be effective at the time of the record breaking floods on the River Danube in 2013.

Figure 25

#### The SAO's contribution to the evaluation of the disaster management system



The State Audit Office of Hungary analysed the functioning of the renewed disaster management system. The SAO's analysis concluded that the government implemented the integration and professionalisation of different disaster management organisations, as well as the incentivised inclusion of society, all at the same time, as a result of which the National Directorate General for Disaster Management has increased its capability of ensuring the fulfilment of the complex requirements set for their system, compared to the effect of previous regulations. In the new structure, the government exercises direct control over a significantly larger proportion of the country's resources used for disaster management, compared to previous years. Furthermore, the updating of the Act on Disaster Management has eliminated countless regulatory gaps, and now uses consistent terminology, and has integrated the previously independent sectoral regulations applicable to disaster management and civil protection, water management and other regulatory fields into a uniform scheme. Based on the foregoing, the management of the National Directorate General for Disaster Management also utilised the SAO's previous recommendations for overhauling the operational and organisational system.

### Other analyses

The analyses on [public debt management](#) and on [graduate career tracking](#) are presented in connection with an audit focused on the same topics, included the subchapter entitled "Audit supporting the concept of the "well-managed state".

## 1.2. Opinion on the 2017 budget appropriation bill of Hungary

*Pursuant to Article 5 (1) of the SAO Act, the SAO shall review, in order to fulfil its obligation to provide its competent opinion, the substantiation of the central budget appropriation bill and the feasibility of the revenue appropriations. The purpose of the audit is to contribute to the National Assembly adopting a budget that is substantiated and capable of managing risks that may realistically arise through passing new laws and adopting amendments.*

The SAO report containing the findings of the audit is accessible by clicking on the highlighted disclosure serial number, or can be downloaded from the SAO website ([www.asz.hu](http://www.asz.hu)).

[16062](#)

The news item related to the disclosure can be accessed by the link marked with letter "H".

[16062-H](#)

The analysis prepared for the FC (Fiscal Council) is accessible by clicking on the highlighted publication number, or can be downloaded from the SAO website ([www.asz.hu](http://www.asz.hu)).

[T/409](#)

The SAO established that the preparatory and drafting actions, the structure and contents of the bill were compliant with the applicable legislative provisions. In its formal opinion handed over to the National Assembly, the SAO pointed out the following: the multiple elements constituting the reserves, and the expansion of the budgetary reclassification options improve the certainty and flexibility applicable to the execution of the budget, as well as the management of the risks identified, while the grouping of revenues and expenses in clusters of three may increase budget transparency.

The main purpose of the analysis entitled "Opinion on the 2017 Budget Appropriation Bill of Hungary" (T/409) is to ascertain whether the macroeconomic forecasts were taken into account when planning the appropriations related to the 2017 budget appropriation bill. The analysis calls the attention on the key risk factors identifiable with respect to the revenue and expenditure appropriations of the budget.

The SAO prepared another analysis for the Fiscal Council to see whether the relevant version of the budget appropriation bill prepared for the final vote fulfils the requirement for reducing the government debt-to-GDP ratio set forth in the Fundamental Law, thus supporting the implementation of the provisions set out in Article 25 (1) of the Act on the Economic Stability of Hungary.

Through its opinions expressed during the debate of the budget appropriation bill, and its analyses provided through the Fiscal Council, the State Audit Office of Hungary continuously supported the compilation of the budget for 2017, and also contributed to the transparency of budgetary planning.

## 1.3. Integrity surveys

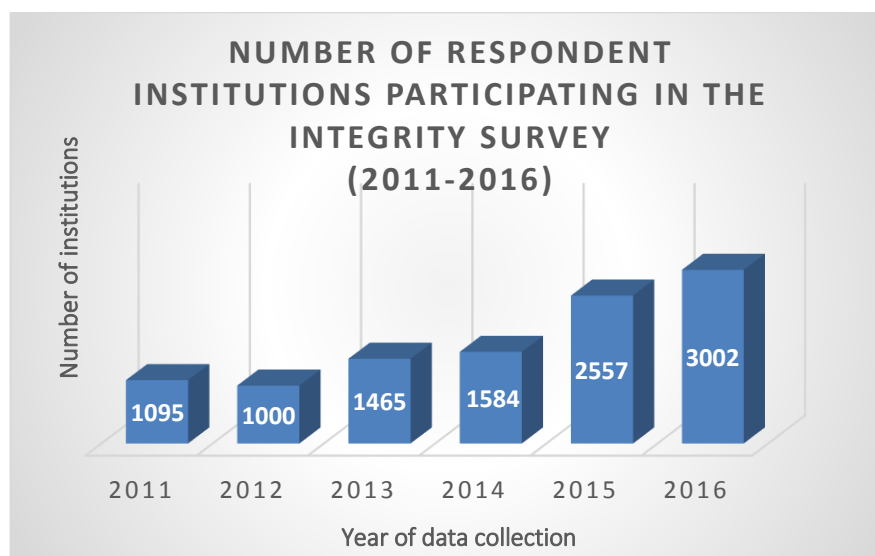
*The State Audit Office of Hungary has annually conducted its Integrity Surveys since 2011, the primary aim of which is to provide feedback on the vulnerability to corruption of public sector institutions, as well as to ensure that the levels of controls that serve to manage corruption risks are in place. The survey conducted in 2016 saw more public institutions participate than ever before (3,002), representing 61.3 per cent of public sector employees. In addition to assessing risks and controls, as a new result, the research report compiled on the basis of the methodology updated in 2016 also identified numerous factors reinforcing the protection against corruption.*

According to the OECD's position statement, integrity or ethical conduct/operation is one of the cornerstones of good governance, maintaining confidence in governing activities and contributing to the prevention of corruption. The State Audit Office of Hungary considers it its key task to develop and disseminate the application of the integrity approach. All

this means that the enhancement of integrity in the public sector, as an objective, saturates all activities of the SAO. The integrity approach is applied to the performance of auditing and advisory functions to the same extent as it is applied to international and domestic knowledge-sharing efforts.

Accordingly, the purpose of the Integrity survey first launched in 2011 is to identify risks having an adverse effect on ethical and transparent operation, and to map out the controls required to address such risks. It should be noted that the survey is increasingly recognised, and the number of institutions completing the integrity survey keeps growing every year.

Figure 26



In 2016, the State Audit Office of Hungary carried out its sixth Integrity Survey, the primary aim of which is to provide feedback on the vulnerability to corruption of public sector institutions, as well as to ensure that the levels of controls that serve to manage corruption risks are in place. In addition to assessing risks and controls, as a new result the 2016 research also identified numerous factors reinforcing the protection against corruption. In addition to presenting the integrity-related risks and the level of development of the corresponding control system of the 15 institution groups defined, the organisation set itself the objective of exploring new research areas, such as presenting the risk arising from the lack of controls, or evaluating the method of ethical leadership.

Several factors were identified through the integrity survey that play a significant role in the enhancement of integrity. The transformation initiated by the government concerning the legal compliance supervision over local governments resulted in a reduction of risks as far as the local authorities are concerned, while in the case of the regional governance authorities the same values increased. In the case of the regional directorates, the increased level of risks arising from the reorganisation of responsibilities entailed a rapid development of controls. The central government offices can manage corruption risks more effectively, compared to the previous scheme.

Research also concluded that, among others, regular participation in the Integrity survey, the risk-sensitivity of the reporting and monitoring insti-

The analyses related to Integrity are accessible by clicking on the name of the analysis included in the highlighted annex with the appropriate number, or can be downloaded from the SAO website ([www.asz.hu](http://www.asz.hu)).

**Annex II**

tutions, as well as the frequency of SAO audits all had a positive effect on the protection against corruption used by the given entity. The results of the integrity surveys are used by the SAO in its risk assessment activities when selecting the audited entities, and the aspects of integrity are incorporated in the audit processes.

#### **Analysis - on the integrity survey results of companies in majority state ownership and local government-owned companies**

In 2016, the SAO extended its integrity survey, conducted successfully amongst public sector institutions for several years, to companies in majority state ownership and to local government-owned companies. The resulting analyses were published by the SAO in May 2016 and February 2017, respectively. The analyses provide a fair view of the integrity status, corruption risks of state- or local government-owned companies, as well as of the level of integrity controls strengthening their resilience against corruption. The analyses were also intended to examine the level of corruption threat at certain specific areas of corporate governance, and to see to what extent the controls addressing and mitigating corruption risks have been developed in these areas. Through these analyses, it is increasingly recognised that regulated operation along declared values and the development of appropriate internal controls reduces corruption risks in the cases of economic operators using public funds and public assets and providing public services.



### **1.4. Public sector management**

*A well-governed public sector is inconceivable without public institutions and the effective and efficient governance of state and local government-owned business associations. By fulfilling its statutory obligation, the State Audit Office of Hungary wishes to make its own contribution to good governance. The audits performed by the State Audit Office identified a number of deficiencies in public sector management in recent years, about which the President of the SAO provided information at several forums and during a government meeting. In harmony with the strategic objectives of the State Audit Office, at the same time he also made recommendations for the renewal of public sector management.*

#### **The importance of public sector management and the SAO's related contribution**

Fundamentally speaking, well-managed, effectively and efficiently governed public institutions and state-owned business associations serve the interest of the public. The assets managed by public institutions or by their business associations, the affected organisations' performance and the quality, effectiveness and efficiency of their financial management are all contributing factors to transparent, appropriate and sound management of public funds. In the SAO's view, it is of primary importance that in support of the above the employment of systematic solutions, both short and long-term, should become regular practice, and the relevant management bodies should demonstrate appropriate expertise. However, this represents a highly challenging task. Although Act XXXVIII of 1989 on the State Audit Office of Hungary already provided for the auditability of state-owned companies, the auditability of local government-

The analysis is accessible by clicking on the highlighted number of the study series, or can be downloaded from the SAO website ([www.asz.hu](http://www.asz.hu)).

[Study on public sector management](#)

owned companies was only made possible by a legislative amendment effective as of 1 January 2011. The audits following these principles pointed out significant problems.

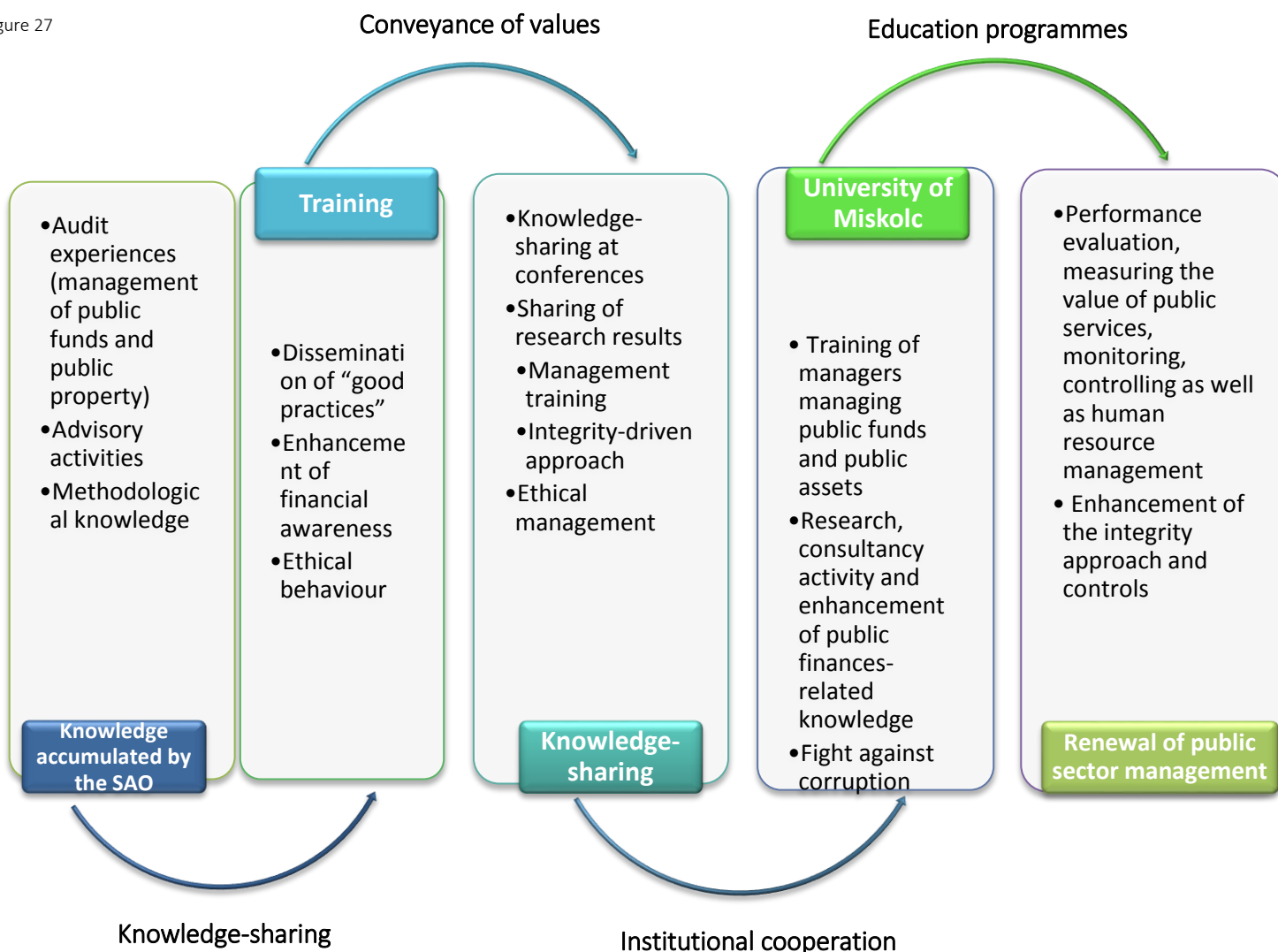
One of the outstanding examples of the utilisation of our work was demonstrated by the fact that the Government of Hungary issued Resolution No. 1660/2015 based on the information and recommendations given by the President of the State Audit Office of Hungary. In the resolution, the Government declared its commitment to establishing transparent, effective and economically viable operating conditions for majority state-owned companies, and to the continuous performance assessment of the managers of majority state-owned companies from the aspects of regularity, effectiveness and economic viability; and furthermore, to the fact that the managers of state-owned companies are required to abide by stringent ethical and integrity principles. In accordance with the above, one of the strategic objectives in 2016 was to support the reforms introduced in public sector management.

The State Audit Office prepared a study entitled *“Contributions of the State Audit Office of Hungary to Public Sector Management Reforms”* based on the audit experiences of state and local government-owned enterprises. This study and the audit experiences described therein were presented by the SAO to a professional audience at the “Good Practices” seminar of 26 May 2016. In addition to the issue of public sector management reforms, the integrity situation of state-owned enterprises was also taken under scrutiny.

### **Training of public finance managers**

The purpose of the advisory activities pursued by the State Audit Office of Hungary is to propagate knowledge-sharing and the use of “good practices”, as well as to enhance public finance and management skills at public sector organisations. This objective was further enhanced by Resolution No. 34/2015. (VII. 7.), in which the National Assembly agreed that the State Audit Office of Hungary should widen its consultancy activities regarding management systems and should support the training of ethical public finance managers with respect to organisations entrusted with the management of public funds and public property. To this effect, the SAO strives to work together with the other constitutional institutions and with higher education institutions, placing ethic financial management in the focal point of their educational and research activities.

Figure 27



The first practical embodiment of this endeavour was that in November 2015 the SAO renewed its cooperation agreement with the University of Miskolc (UoM) with a view to leveraging the SAO's audit and analytical experiences and the UoM's educational and research experiences by exploiting mutual benefits, become better connectable, supporting the innovative, practice-oriented and high standard operation of both institutions.

Within the framework of the agreement, the Faculty of Economics of the University of Miskolc established, in conjunction with the State Audit Office of Hungary, a Public Service Management Department as of 1 February 2016. The strategic objective of the educational and academic research activities performed by the Department is to enhance the culture of public service management, to introduce integrity into the operation and assessment of public service organisations, to further develop the methodology used for measuring and evaluating organisational and personal performance, and to introduce as guidance the international practices in public sector management in Hungary. The applicable criteria and shared curriculum of the one-year postgraduate specialised programme which started last September were developed by the University, while the venue and the lecturers, in part, are provided by the SAO.

The primary target group of this postgraduate specialised programme includes public sector finance managers and professionals involved in the financial management decision-support and monitoring processes.

Given the high professional interest in this initiative, the State Audit Office is seeking ways for launching further training cooperation opportunities, which in the future may serve the development of ethical management systems for public governance and public institutions.

The main objective of the academic research activities pursued in parallel with the training programme launched on 9 September 2016 is to lay the academic foundation for the ethical public finance manager training scheme. Within the framework of the cooperation agreement, the parties accepted a three-year research plan governing academic research activity, and one of its achievements in 2016 was the drafting of a research report entitled “*Examination of the Operation of Public Service Organisations*”. The results of the research programme, planned with a duration of three years, may later serve as a basis for the publication of collections of studies, academic publications as well as for drafting preliminary studies and methodological resources, paving the road for performance assessments in certain fields of public service, and thus will be integrated in the curriculum of the public service analyst programme.

The SAO also strengthened its cooperation with Corvinus University of Budapest in 2016. The long-term objective of the two institutions is to train corporate managers, who are able to perform the integrity-based management tasks of companies, and ensure transparent and accountable operation for the state, economic players and the whole of society.

## 1.5. Transparent organisations

*The purpose of the SAO’s auditing of the execution of the budget (final accounts) is to support the National Assembly in its decision-making related to the adoptability of the draft bill on the final accounts, and to strengthen the concepts of transparency and accountability in public finance management. The publication of data specified in legal regulations is essential for the transparency of the utilisation of public funds. The State Audit Office of Hungary pays particular attention to monitoring the fulfilment of the disclosure obligation serving as one of the key guarantees for the transparency of public finances. Furthermore, the State Audit Office of Hungary, as a model organisation, strives to ensure that its operation is transparent to the general public, and its activities are compliant with the international professional requirements. This objective is served by the self-tests performed by the organisation and the peer reviews conducted by international partner institutions, in addition to the organisation’s active communication activity.*

The SAO report containing the findings of the final accounts audit is available by clicking on the highlighted disclosure serial number or can be downloaded from the SAO website ([www.asz.hu](http://www.asz.hu)).

[16163](#)

The summary prepared for the press (also containing the main findings) is available at the link marked “O”.

[16163-O](#)

### Final accounts audit

The State Audit Office of Hungary carried out the audit of the execution of the central budget in 2016 as well, thus fulfilling its statutory obligations. During the audit of the final accounts in 2015, the SAO used an audit model developed in compliance with a methodology renewed in 2015, capable of covering the financial management of the whole system of public finances. The SAO’s audit contributed to the National Assembly making a well-substantiated decision on the adoption of the Act on Final Accounts. According to the finding of the SAO’s audit, the bill on the final accounts provided truthful financial data and information in relation to the execution of the budget.

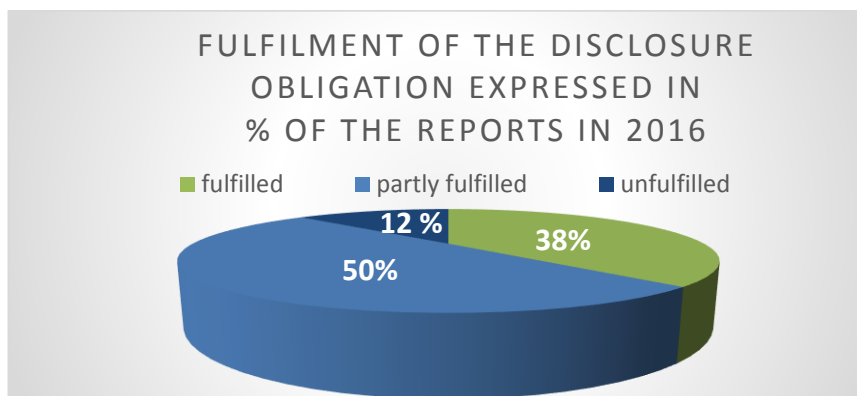


### Fulfilment of disclosure obligations

The utilisation of public funds in Hungary is regulated by a number of other laws in addition to the Fundamental Law for the purpose of ensuring transparency. Prominent among these is Act CXII of 2011 on Informational Self-Determination and Freedom of Information (hereinafter Privacy Act) providing for the fundamental rules serving the purpose of enforcing the right for accessing and disseminating public data and data of public interest. The publication of data set out by law supports the transparent utilisation of public funds. The utilisation of transparent financial management is a two-way process: for the public it allows the controlling and possibly the recognition of good operation, whereas in terms of the organisation it represents an incentive for good performance. The SAO pays attention to the enforcement of the legislative guarantees of transparency and to monitoring the audited entities' compliance with the disclosure obligation.

Of the 260 reports published in 2016, in 207 cases the audits were focused, among others, on the disclosure obligation. Compliance with disclosure obligations is illustrated by the figure below.

Figure 28



Full compliance with the disclosure obligation was established in the case of 38% of the audit reports drawn up in 2016. 50% of the audit reports concluded that the audited entities' disclosure obligation was only partially fulfilled based on the fact that the affected audited entities complied with only some of their disclosure duties. 12% of the reports incorporated findings, according to which the disclosure obligation was not met.

Town museums with county rights and business associations in majority local government ownership represented the largest group of audited entities that had failed to meet their disclosure obligation.

The high number of audited entities failing to meet or only partially meeting their disclosure obligation provides evidence for the fact that there is still room for improving the transparency of public funds and enhancing general confidence in the public sector.

### The SAO's self-assessments and peer reviews

With a view to enhancing its quality-driven operation, the SAO decided to evaluate in the context of self-assessments and so-called peer reviews the effectiveness of the institutions' operation, the innovations and methodologies introduced from 2010 and the achievements so far. After



#### The SAO's proposal

Subject matters brought up for consideration: review of the legal regulations applicable to publications, strengthening of the management and quality-centredness of the institutions and economic operators.

#### What is self-assessment?

Self-assessment is a method of analysing the efficiency of the operation of an institution. In the context of the exercise, the institution performs self-assessment based on a pre-defined methodology, usually relying on its own internal resources. The ideal organisation regularly performs self-assessment, monitoring its activities and the feasibility of its objectives on a continuous basis. It strives to achieve the best possible operation by optimising its processes.

### What is peer review?

A performance assessment framework, which can be conducted by the SAI's (state audit offices) of different nations in accordance with the recommendations of the International Organisation of Supreme Audit Institutions, INTOSAI. Its purpose is to provide a comprehensive and comparative analysis on the effectiveness of the SAI's work in respect of a designated area, topic or method.

the SAO's information technology self-assessment in 2014, the self-assessment of the IT audit was conducted under the professional surveillance of the Swiss and Turkish supreme audit institutions in 2015, based on EUROSAI methodology. The comprehensive assessment of the institution's communication activities took place between 2014 and 2016. Firstly, the State Audit Office of Hungary evaluated the utilisation effectiveness of its own institutional communication based on international methodology. As a second step, experts of the Polish and Lithuanian SAIs performed a peer review of the SAO on the basis of international provisions applicable to the transparent operation and accountability of supreme audit institutions. The project deliverables were achieved successfully. An objective, well-balanced and highly usable review report was prepared providing a comprehensive view on the effectiveness and efficiency of institutional communication. Upon the conclusion of the project, the State Audit Office of Hungary developed and approved an action plan which lays the foundation for the subsequent directions of developing its institutional communication.

## 1.6. Financial awareness

*The State Audit Office of Hungary has been a strong promoter of inter-institutional co-operations established for the enhancement of financial awareness and of researches focusing on financial literacy for years. It has been given a prominent place on the SAO's social responsibility agenda for the past years, and this aspiration was also underpinned by Resolution No. 41/2014 (XI. 13.) of the National Assembly by recognising and supporting the role of the SAO in enhancing financial literacy. The purpose of the SAO's activity in this field is to mitigate the risks posed to the national economy and macroeconomy by insufficient financial awareness and unfounded financial decisions made by members of the public, and to enhance the financial awareness of Hungarian families.*

### Financial literacy

In April 2016, the SAO published its research report focusing on financial literacy development programmes to be provided outside of domestic formal education. The purpose of the survey was to support the development of a national strategy and infrastructure fostering financial literacy by exploring the characteristics and deficiencies of the existing training systems and programmes, identifying the reasons for the poor efficiency of the trainings, observed on the basis of previous surveys, and to help determine the relevant needs.

The results indicate that the organisers of financial literacy trainings most often tend to concentrate on students involved in public education.

Most of the training programmes fail to measure their own effectiveness. The majority of the training curricula and training materials are not available, or are publicly not accessible. In light of the experiences gained from the research, the factors ensuring proper quality and effectiveness should be strengthened with a view to promoting the responsible and well-founded management of public funds.

In 2016, the SAO organised, in conjunction with Econvetio Roundtable Nonprofit Association, a 30-hour training course on "Responsible Financial Management – the Basics of Economy, Finance and Public Financing"

More information can be found on financial trainings by clicking on the highlighted term "Training" on the SAO's news portal, while all the news articles on financial awareness can be accessed by clicking on the term "Financial Awareness"

[Training](#)  
[Financial awareness](#)

for adults. E-learning activities were launched and the operation of an “Online Study Hall” was started within the framework of the cooperation.

## 1.7. Audits in support of the well-managed state

*The SAO’s audits related to certain topics represent increased contributions to the identification of and awareness-raising pertinent to the problems, risks or good practices of a certain public sector functional area or subsector. The audit results and recommendations can be used for the more effective and efficient management of the given area.*

The SAO report containing the findings of the audit is accessible by clicking on the highlighted disclosure serial number, or can be downloaded from the SAO website ([www.asz.hu](http://www.asz.hu)).

[16104](#)

The SAO report containing the findings of the follow-up audit is accessible by clicking on the highlighted disclosure serial number, or can be downloaded from the SAO website ([www.asz.hu](http://www.asz.hu)).

[16105](#)

The summaries prepared for the press (also containing the main findings) is available at the links marked with letter “O”.

[16104-O](#)  
[16105-O](#)

The study is accessible by clicking on the highlighted publication number, or can be downloaded from the SAO website ([www.asz.hu](http://www.asz.hu)).

[T/413](#)

The SAO report containing the findings of the audit is accessible by clicking on the highlighted disclosure serial number, or can be downloaded from the SAO website ([www.asz.hu](http://www.asz.hu)).

[16006](#)

The summary prepared for the press (also containing the main findings) is available at the link marked “O”.

[16006-O](#)

### Public debt management

The SAO pays particular attention to auditing activities and organisations having a direct influence on the enforcement of the public debt-rule stipulated in the Fundamental Law. The SAO considered it justified to conduct audits in the field of public debt management due to the changes in economic policy in recent years having a significant impact on the issues of debt management. Accordingly, it audited the effectiveness of general debt management both in 2012 and in 2016. The purpose of the 2016 audit was to evaluate the soundness and effective implementation of the debt management strategy.

Considering that the SAO set itself the objective of improving the utilisation of the work performed by the supreme audit institution, the follow-up audit of the 2012 audit was conducted in parallel with the above mentioned audit process. Both the basic audit and the follow-up audit processes highlighted the importance of public debt management, and pointed out the risks inherent thereto. The audit findings were complemented with an analysis describing the process and results of public debt management between 2012 and 2015 and making a general international comparison.

Both the audits and the analysis clearly showed that effective debt management requires the identification of a set of criteria for performance measurement, the determination of clear and measurable objectives, i.e. indicators, and of the associated requirements.

### Tourism development

Tourism is a special branch of economy which simultaneously helps achieve several goals of economic strategy – first of all the improvement of the balance of payments, job creation, regional development as well as the utilisation and preservation of the natural and cultural heritage. The SAO audited the measures taken for tourism development from the aspect of effectiveness, within the framework of a performance audit, with regard to the period between January 2013 and August 2015. The aim of this audit was to evaluate whether the measures taken for the development of tourism contributed to the accomplishment of the objectives set. The auditing of tourism development measures was conducted in the context of an international cooperation, in conjunction with the SAIs of Croatia and Macedonia, based on common audit criteria.

The effect of the tourism development measures on the implementation of strategic goals could not be established, because the conditions for monitoring the achievement of such goals were only partially provided.

We made recommendations to the Minister for National Economy based on the audit findings with a view to establishing the measures necessary

for the accomplishment of the strategic objectives of the national tourism and health tourism sectors for the period between 2014 and 2020, to specifying measurable goals and performance indicators and to performing the relevant measurements. We made recommendations to the chairman of Lake Balaton Development Council for the monitoring of the objectives set forth in the Lake Balaton Regional Development Strategy. In response to the recommendations, the audited organisations prepared action plans, which were acknowledged by the SAO.

After the audit, the Government implemented measures with a view to transforming the public system of duties and institutions related to tourism. The tourism-related tasks were transferred to the Minister of National Development. The Hungarian Tourism Agency was established for the purpose of performing responsibilities related to a uniform public tourism sector, event coordination, tourism product development and hospitality, and a Government Commissioner was appointed for coordinating the organisation's activities and of the public tourism-related duties. A National Tourism Advisory Board was established with a view to acting as a body making proposals, reviews and providing advisory services to the Government. The public duties related to the development of tourism regions are specified by law as of 30 December 2016.

#### Utilisation of competitive knowledge

The SAO conducted its audit entitled "Joint Audits for the Better Utilisation of Competitive Knowledge – Good Practices in Graduate Career Tracking" within the framework of a cooperation between the SAIs of the European Union. The SAO audited the development and functioning of the Hungarian graduate career tracking system in terms of the period between 1 January 2011 and 31 October 2015, with a view to identifying the factors supporting the effective operation of the system and exploring good practices.

Parallel to the SAO's audit, the SAIs of Bulgaria and Romania conducted audits in similar topics, and an international study will be drawn up on their shared experiences. In the context of a cooperation agreement between the SAIs of the three countries (Romania, Bulgaria and Hungary), the SAO prepared an analysis complementing the audit, describing in detail the functioning of the graduate career tracking system in Hungary, by specifically highlighting good career tracking practices. The analysis was published by the SAO in March 2017.

Significantly more data were collected and systematised through the means used by the analysis than were eventually included in the SAO report drawn up on the relevant audit. Consequently, on the one hand the analysis confirmed, and on the other hand it refined and usefully supplemented the audit findings.

<p>The SAO report containing the findings of the audit is accessible by clicking on the highlighted disclosure serial number, or can be downloaded from the SAO website (<a href="http://www.asz.hu">www.asz.hu</a>).</p>	<p><a href="#">16154</a></p>
<p>The summary prepared for the press (also containing the main findings) is available at the link marked "O".</p>	<p><a href="#">16154-O</a></p>
<p>The study is accessible by clicking on the highlighted publication number, or can be downloaded from the SAO website (<a href="http://www.asz.hu">www.asz.hu</a>).</p>	<p><a href="#">T/417</a></p>
<p>Any additional SAO reports on the focus areas of the well-managed state are available by clicking on the title of each report under the Section referenced in the highlighted Annex number or can be downloaded from the SAO website (<a href="http://www.asz.hu">www.asz.hu</a>).</p>	<p><a href="#">Annex II, Section 1</a></p>

## 2. Auditing the auditors

*The inter-related “lines of defence” employed by the different monitoring bodies and organisations functioning in the Hungarian public law system are intended to ensure the auditing of the utilisation of public funds and public assets. The first line of defence is composed of the internal control system of the various institutions, in particular the internal audit, whereas the second line of defence is represented by the supervision and monitoring tasks related to the government and local governments, and the third line of defence is ensured by independent external auditing, such as the auditing tasks performed by the State Audit Office of Hungary.*

*The SAO, as the supreme financial and economic audit institution of the National Assembly, is authorised to audit the financial management and functioning of other prominent public administration, governmental or supervisory bodies. The results of the SAO’s work, acting as auditor of the auditors, may be demonstrated exponentially, as with the increasingly regular, effective and transparent activities of the auditing bodies, the outcomes of SAO audits may be indirectly utilised in the operation of the organisations audited by the auditing bodies.*

*In 2016, in the context of auditing the auditors, the SAO carried out the audits of some of the organisations constituting the second line of defence, such as the Hungarian State Treasury, the National Tax and Customs Administration and the National Bank of Hungary, as well as auditing activities representing the market sector of the third line of defence.*

### 2.1. Audit of the Hungarian State Treasury

*The operation, task performance, transparent financial management of the Hungarian State Treasury (Treasury) within the framework of the execution of the central budget is of crucial importance concerning the reliability of data reported on public finances, and it is directly or indirectly related to all public sector players, and its operation affects the lives of almost all Hungarian citizens. To this effect, the State Audit Office of Hungary regularly audits the operation and financial management of the Treasury, as well as the performance of some of its specific tasks. The SAO performs work on the premises of the Treasury every year when auditing the final accounts prepared in relation to the execution of the central budget. In 2016, the audit of the Treasury covered the regularity of the public administration activity and of the development of the centralised payroll calculation system, and the audit pertinent to the financial management of the Treasury, as central budgetary organisation, was started.*

The SAO report containing the findings of the audit of the Treasury is accessible by clicking on the highlighted disclosure serial number, or can be downloaded from the SAO website ([www.asz.hu](http://www.asz.hu)).

[16043](#)

The summary prepared for the press (also containing the main findings) is available at the link marked “O”.

[16043-O](#)

#### Findings and conclusions

The Treasury has failed to establish an appropriate control environment for the performance of public administration duties, including the procedures related to family allowances, disability allowances, registration systems, as well as redress procedures, as a consequence of which the enforceability of accountability and responsibility posed increased risk, and no appropriate accountability was ensured. In the case of benefits for large families, the local government subsystem, non-budgetary human service providers, state housing subsidies and campaign financing, the re-



lated tasks were performed in compliance with the statutory requirements.

In terms of the centralised payroll calculation task, apart from the compliance of the settlements with the statutory requirements, the consistency among the fundamental documents pertinent to task performance (internal regulations and job descriptions) was not ensured. As a consequence, responsibility and accountability were not enforced. The measures implemented for the purpose of reducing integrity and corruption risks were not compliant with the statutory requirements. The Treasury's classification of its IT systems was incomplete and was not compliant with the statutory requirements, and furthermore, the specification of its IT security level also failed to follow the statutory requirements, contrary to the provisions set forth in Act L of 2013, therefore, the confidentiality, integrity and availability of data managed by such IT systems was not ensured, and in addition the closed-loop, complete, continuous and risk proportionate protection of such IT systems was also not implemented.

### Recommendations

The SAO gave recommendations to the President of the Treasury, and to the General Director of the Central Administration of National Pension Insurance taking over the duties of the Treasury as legal successor, as well as to the heads of the Budapest and county-level government offices for addressing the irregularities explored in the regulation of their administrative activities and in the field of tasks performance, and with a view to ensuring that the Treasury's electronic information technology systems are compliant with information security requirements.

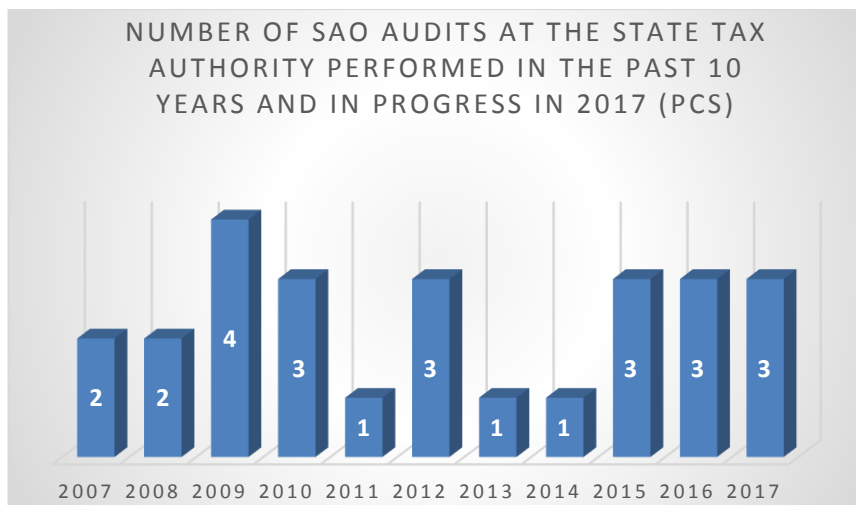
## 2.2. Audit of the National Tax and Customs Administration (NAV)

*It is incorporated among the statutory duties of the State Audit Office of Hungary to audit the taxation and other revenue collection activities of the state tax authority. In the past 10 years, 25 audits conducted by the SAO affected the state tax authority to some extent. The SAO performs the auditing of the National Tax and Customs Administration (NAV) according to a systematic plan. During the course of these audits, in previous years it examined the performance of the tasks related to the collection of tax arrears, the controlling of the application of tax exemptions, and in 2016 the accomplishment of tasks pertinent to personal income taxes and to the elimination of double taxation. In the context of the annual final accounts, each year the SAO audited and audits the collection of taxes and contributions by NAV, as such items represent an essential part of central budget revenues. In 2016, the SAO launched the audit of the IT systems supporting the performance of NAV's tasks with a view to ensuring the availability of a legally compliant IT support at the service of the lawful and effective collection of budget revenues. NAV, as special data controller of records being part of the national data assets, is involved in the audit process of the domestic framework of data protection and various priority data registries as an audited entity.*

The revenue side of the central budget mostly incorporates taxes and contributions paid, therefore, the application of regulated tax collection procedures, and the effectiveness of the practical implementation thereof are of key importance from the aspects of maintaining the stability of

the central budget and of continuously reducing the volume of public debt.

Figure 29



### Findings and conclusions

In the context of the regularity audit of the task performance related to certain tax collection activities, the SAO found that the NAV's personal income tax-related activities were regulated and regular in the period between 2010 and 2014. The formulation of the audit trail constituting a part of the uniform internal control system that covers all operational processes of the organisation was completed, as a utilisation of the previous SAO audit, by November 2014. The audit found deficiencies in task performance related to the avoidance of the double taxation of private individuals. The deficiencies found by the audit imply a risk to the fulfilment of tax liabilities affecting foreign agreements, in particular, those pertaining to the avoidance of double taxation. The NAV's audit procedures conducted among taxpayers in relation to withholding tax on interest payments only partly complied with legal regulations in that the audits did not cover the IT systems generating the data. The report formulated a number of recommendations for the elimination of the deficiencies as they may jeopardise the effectiveness of tax collection.

In relation to the personal income tax levied on interest income, the SAO also audited a number of (partly) state-owned payer organisations within the NAV's scope of control. It concluded that although the audited payers installed and operated information systems suitable for recognising withholding tax on interest between 2010 and 2014, contrary to legislative requirements, they failed to introduce safeguards commensurate with risks to protect the integrity, completeness and reliability of the IT systems adequately. Although the calculation, deduction, reporting and payment of personal income taxes on interest incomes were regular at financial service providers, due to the security deficiencies of the information systems, there was a risk of data mismanagement.

### Recommendations

The SAO formulated recommendations for the consideration of the NAV's President with regard to auditing double taxation activities as well as the reporting and payment of the withholding tax on interest. Recommendations addressed to the audited financial service providers (payers) – i.e.

The SAO report containing the findings of the audit on tax collection procedures is accessible by clicking on the highlighted disclosure serial number, or can be downloaded from the SAO website ([www.asz.hu](http://www.asz.hu)).

[16037](#)

The summary prepared for the press (also containing the main findings) is available at the link marked "O".

[16037-O](#)

to the Chairmen–CEOs of Magyar Külkereskedelmi Bank Zrt. (Hungarian Foreign Trade Bank Ltd.) and Magyar Posta Életbiztosító Zrt. (Hungarian Post Life Insurance Ltd.) and to the CEO of Magyar Posta Befektetési Zrt. (Hungarian Post Investment Ltd.) – concerned the comprehensive operation of IT control systems. In response to the recommendations, the executive officers of the audited organisations prepared action plans, which were acknowledged by the SAO.

### 2.3. Audit of the National Bank of Hungary (MNB)

*Pursuant to its legal mandate, the SAO performs the regulatory audit of the financial management of the National Bank of Hungary (MNB), as well as the activities outside of the scope of the MNB's basic tasks. It was in 2015 that the SAO audited the MNB's activity aimed at the supervision, control and regulation of the financial intermediary system for first time. However, in consideration of the MNB's changed duties, the SAO audit conducted in 2016 also included the evaluation of the task performed by the MNB as a resolution authority. The SAO conducted a follow-up audit to evaluate the execution of the pressing tasks prescribed by the action plan developed in response to the recommendations concluding the audit, enforcing the principle of "no audits without consequences".*

The SAO report containing the findings of the audit of the MNB is available by clicking on the highlighted disclosure serial number or can be downloaded from the SAO website ([www.asz.hu](http://www.asz.hu)).

[16116](#)

The SAO report containing the findings of the follow-up audit of the MNB is available by clicking on the highlighted disclosure serial number or can be downloaded from the SAO website ([www.asz.hu](http://www.asz.hu)).

[16117](#)

The summaries prepared for the press (also containing the main findings) is available at the links marked with letter "O".

[16116-O](#)  
[16117-O](#)

#### Findings

The audit conducted by the SAO in 2016 found that the MNB's organisational structure and its management and decision-making systems complied with legal regulations. Until May 2014, the operation of the Supervisory Board was regulated and regular. The MNB ensured the operating conditions of the Financial Arbitration Board in accordance with legal provisions. The financial management of the support provided by the MNB was regular. The MNB's actions aimed at the regulation of the public electronic information system in relation to the MNB's supervision, control and regulation of the financial intermediary system were regular.

The MNB's actions during its control procedures and during the licensing and control procedures related to the supervision of investment firms complied with regulations. With respect to the licensing and other procedures related to the MNB's supervisory role, the audit found errors in administrative procedures and in the handling of missing information requests.

#### Recommendations

The SAO formulated recommendations for the consideration of the MNB's Governor on compliance with the content requirements of the inspection reports produced in relation to control procedures and, with regard to its basic and other tasks, on the preparation of a separate annual plan for the MNB's investments.

### 2.4. Audit of the Chamber of Hungarian Auditors (MKVK)

*In Hungary, public funds are protected by an inter-related, harmonised control system. Representing the market part of the third line of defence, independent audits play a key role in ensuring the transparency of financial management; indeed, the auditor's ap-*



*proving opinion guarantees that the report provides an objective, true and fair view of the economic and financial situation of the subject. In every society, audits have a pivotal role in establishing, protecting and, as the case may be, restoring general and market confidence and credibility. As a result, the financial management of a public body comprising auditors serves as a measure for all economic organisations. The Chamber performs the quality assurance of auditors' assignments, sets the ethical rules applicable to auditors and safeguards compliance with the rules. The SAO edited the financial management of the Chamber of Hungarian Auditors for the period of 2012–2014.*

The SAO report containing the findings of the audit of MKVK is available by clicking on the highlighted disclosure serial number or can be downloaded from the SAO website ([www.asz.hu](http://www.asz.hu)).

[16164](#)

The summary prepared for the press (also containing the main findings) is available at the link marked "O".

[16164-O](#)



### The SAO's proposal

It might be necessary to strengthen the quality assurance and sanctioning of the work performed by audit institutions at least where the activity of organisations affected by public finances is validated by market participants.

## Conclusions

The financial management of the Chamber of Hungarian Auditors (MKVK) was neither regular nor exemplary. The President of the Chamber of Hungarian Auditors did not ensure comprehensive personal data protection. The President of the Chamber did not fully comply with his obligation to disclose data of public interest; therefore, the transparency of the Chamber was not ensured. The Chamber's use and accounting of funding from the central budget was regular.

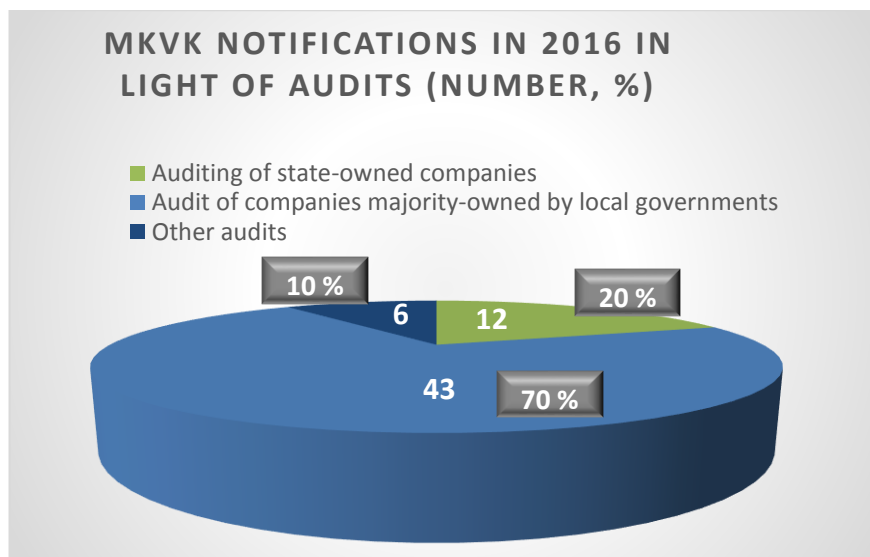
## Recommendations

In order to rectify the deficiencies, based on audit findings the SAO formulated recommendations with obligations to take action, six of which were addressed to the President, and another nine to the Secretary General of the Chamber of Hungarian Auditors. In response to the recommendations, action plans have been prepared, which were acknowledged by the SAO.

## Notifications to the Chamber of Hungarian Auditors

In 2016, the SAO notified the Chamber of Hungarian Auditors with respect to professional deficiencies uncovered by its audits on 61 occasions, instructing the Chamber to investigate the detected irregularities and implement the necessary measures. As a result of the notifications, disciplinary action was initiated in 10 cases, but in 36 cases the disciplinary agent did not deem the initiation of the disciplinary action warranted. The SAO is yet to be notified of the assessment of the rest of the notifications.

Figure 30



### 3. Audits and analyses related to the systems of public finance

#### 3.1. Audit of state property

*The SAO audits the activities relating to the exercise of proprietary rights over state property on an annual basis and based on the experiences of the audits, it formulates findings and recommendations for the consideration of the exercisers of proprietary rights. In order to facilitate the rectification of the deficiencies and irregularities detected by the audits, in 2016 the SAO inspected the execution of the action plans undertaken by the audited entities in the context of independent follow-up audits.*

*The SAO continued to audit the asset preservation and financial management activities of state-owned (or partly state-owned) business associations. The audits of the companies selected on the basis of risk assessment reconfirmed, overall, the existence of higher-than-average risks. At one third of the audited entities, the audit detected such irregularities that warranted both the SAO's recommendation for the investigation of liability and the notification of external bodies. With its audits of systems performing public tasks outside of the sphere of public finances, the SAO contributes to facilitating the transparent and orderly use of public funds even by organisations operating outside of public finances.*

##### Audit on the exercise of proprietary rights over state property

The SAO report containing the findings of the audit is accessible by clicking on the highlighted disclosure serial number, or can be downloaded from the SAO website ([www.asz.hu](http://www.asz.hu)).

[16126](#)

The summary prepared for the press (also containing the main findings) is available at the link marked "O".

[16126-O](#)

In 2016, the SAO assessed the execution of the tasks specified in the respective action plans of the National Healthcare Centre (ÁEEK), the Ministry of Rural Development (FM), the Hungarian State Holding Company (MNV Zrt.), the National Land Fund Management Organisation (NFA) and the Ministry of National Development (NFM), as audited entities. Through the measures implemented, the audited entities contributed to establishing the conditions for the regular financial management of state property, enforcing transparency and facilitating the transparency of legal relationships.

Failure to execute the action plans or partial execution continue to pose risks to the reliability of property records and to the regular and transparent management of assets

##### Audit of the asset preservation and financial management activities of state-owned (or partly state-owned) business associations

In 2015, the SAO audited 22 forestry companies and conducted parallel thematic audits at six state-owned (or partly state-owned) business associations outside of public finances, classified into the government sector.

The audit of additional state-owned (or partly state-owned) companies was based on a risk assessment that also utilised the results of a review of the integrity status of the companies concerned and their classification into the government sector. In 2016, the SAO published 25 reports in the framework of thematic audits.

### *What are thematic audits?*

Conducted on the basis of longer-term, uniform audit programmes that allow for comparability and holistic evaluation, thematic audits are designed to cover the most important areas of the operations of a large number of business associations performing identical or similar tasks on a specific area, such as local governments, higher education institutions, hospitals or companies majority-owned by local governments or by the state.

The SAO reports on the audits of state-owned business associations are available by clicking on the titles of the reports under the Section referenced in the highlighted Annex number or can be downloaded from the SAO website ([www.asz.hu](http://www.asz.hu)).

[Annex II,  
Section 3](#)

### **Conclusions**

The audits of the companies selected on the basis of risk assessment re-confirmed, overall, the existence of higher-than-average risks. Regular financial management and operation and reliable data supply are among the key requirements for state-owned business associations included in the financial statements of the government sector. Indeed, their performance in financial management may have an impact on the consolidated debt ratio of public finances and on public deficit. According to our findings, the companies were not involved in transactions that generated debt or the debt thus generated was immaterial; their financial result, therefore, did not have a material impact on public deficit and the macroeconomic risk associated with them is low. The audited entities also play an important role in the protection and safeguarding of national wealth. Based on our audit experiences, there is a need to improve the protection of national wealth, to strengthen ownership control for the responsible financial management of national assets, to set clear requirements for the executive officers (management) of the companies and to monitor and evaluate execution. In order to improve transparency, besides publishing the financial statements approved by the owner, the publicity of all additional data prescribed by legislation should be ensured on a continuous basis. From our audits, we may conclude that the control system aimed at the companies needs improvement, while the approach to and practice of economies of scale and the organisation of companies with streamlined profiles should be broadened.

The SAO supports good governance through its findings and conclusions, i.e. by exploring risks to the regularity of financial management and operation, by enforcing accountability with respect to the management of national wealth, by controlling transparency requirements, by promoting the integrity approach and by providing information that facilitate high-quality legislative work. In order to reduce “grey areas” – i.e. the number of previously unaudited organisations and companies outside of the sphere of public finances –, the SAO continues to conduct thematic audits among state-owned companies.

### **Recommendations**

In 24 reports, the SAO issued a total of 175 recommendations addressed, for the most part, to the executive officers of the business associations. One in five reports contained a regularity recommendation for each of the following areas: internal control system, accounting system, asset management and transparency. At one third of the audited entities, the SAO’s recommendation for the investigation of liability was combined with the notification of external bodies. In response to the recommendations, the executive officers of most of the audited entities prepared action plans with the required content; in some cases, however, the preparation and approval of the action plans is still in progress.

### **Follow-up audit of water utility companies**

Among the audits of state-owned or partly state-owned business associations, the SAO conducted follow-up audits at five water utility companies in 2016 (DMRV Zrt., DRV Zrt., TRV Zrt., ÉRV Zrt. and ÉDV Zrt.). The follow-up audits on the value preservation and accumulation of the assets of the water utility companies audited in 2014 were intended to assess whether

The SAO reports on the water utility companies are available by clicking on the titles of the reports under the Section referenced in the highlighted Annex number or can be downloaded from the SAO website ([www.asz.hu](http://www.asz.hu)).

**Annex II,  
Section 3**

the audited entities had executed the tasks specified in their respective action plans prepared in accordance with the SAO reports' recommendations and findings with obligations to take action.

### Conclusions

The timely completion of some of the relevant tasks enabled the water utility companies to reduce the risks associated with their operations. Incomplete or delayed execution or the lack thereof, however, demonstrates that the elimination of the irregularities detected by the audits were not given due priority, which poses a risk to the regulation of the activity of water utility companies, the regularity of their operation and responsible managerial conduct. By exploring such risks, the follow-up audit system of the SAO enhances discipline and confirms that the responsibility for the regular use of public funds cannot be evaded.

### Warning letters

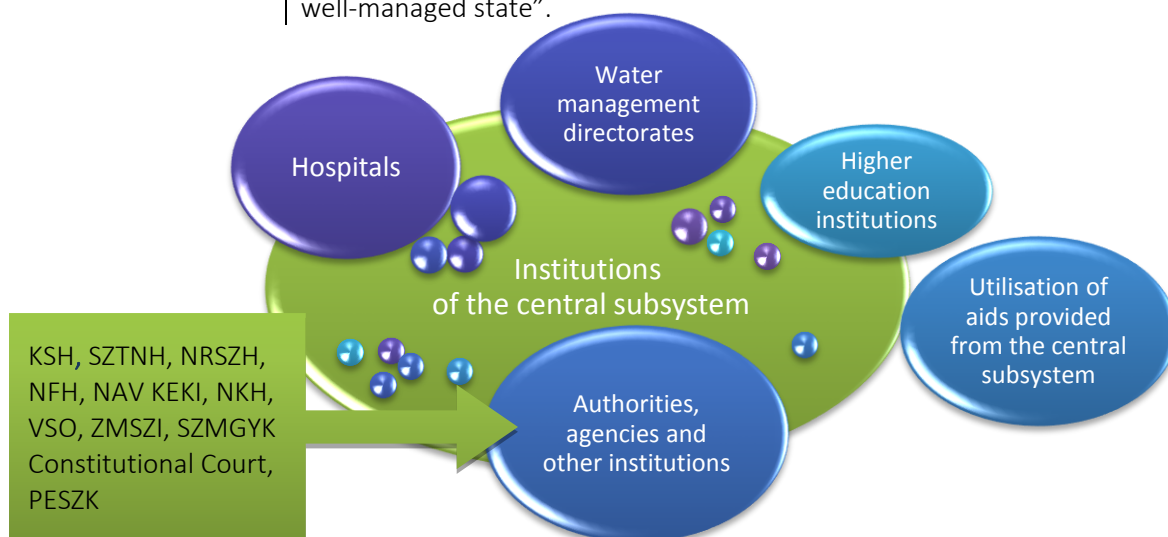
In relation to the follow-up audits, the SAO sent warning letters to the CEO of MNV Zrt. and to the CEOs of the five water utility companies, advising them to implement the necessary measures to ensure the regularity of task performance and to eliminate the risks to responsible managerial conduct, regulation, operation and asset management.

## 3.2. Audit of the central sector

*The budgetary institutions of the central subsystem of public finances exert a significant impact on the maintenance of the budget balance and on the quality of the management of public property. While performing their public duties, they also affect the population's quality of life as well as the exercise of their rights and obligations. Therefore, eliminating the deficiencies detected by the audits in their financial and property management is essential to ensuring that the use of public funds is integrity based, transparent and accountable.*

The SAO audits conducted in the central sector in 2016 are shown on Figure 31. The audits of the National Tax and Customs Administration (NAV), the Hungarian State Treasury (MÁK) and other priority areas of the central sector are presented under the focus areas of "Auditing the auditors", "Audit of state property" and "Supporting the concept of the well-managed state".

Figure 31





The regular operation of the financial and property management of institutions using public funds is a major element in the management of public funds and public property; therefore, the SAO audits the financial and property management and task performance of the institutions of the central subsystem.

In 2016, 26 reports were prepared on the financial and property management of the institutions of the central subsystem. In addition to hospitals and water management directorates, the SAO audited the financial and property management of various authorities, agencies and other institutions:

- Hungarian Intellectual Property Office (SZTNH),
- National Office for Rehabilitation and Social Affairs (NRSZH),
- Hungarian Central Statistical Office (KSH),
- Training, Health and Cultural Institute of the National Tax and Customs Administration (NAV KEKI),
- National Transport Authority (NKH),
- Constitutional Court,
- Viktor Special Home (VSO),
- Zala County Socio-therapy Institution (ZMSZI),
- Szabolcs-Szatmár-Bereg County Child Protection Centre Tiszadob (SZMGYK),
- Dr. Piróth Endre Social Services (PESZK).

The SAO also conducted follow-up audits at the institutions of the central subsystem: in 2016, follow-up audits were conducted at four higher education institutions, at the Hungarian Authority for Consumer Protection (NFH) and on the utilisation of the funds provided for the operation of hospital care. We also audited two non-governmental human service providers and public bodies with respect to the use of aids provided from the central subsystem outside of public finances.

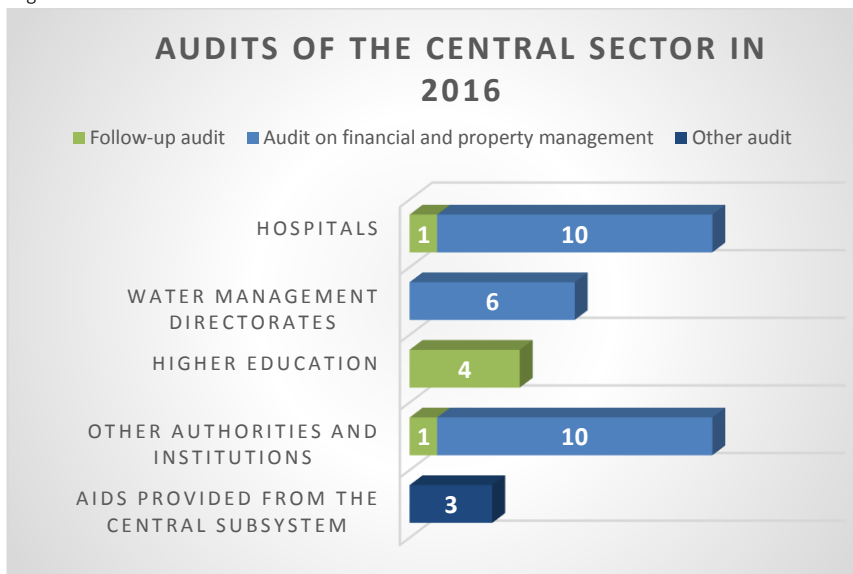
The audit of the financial and property management of the institutions of the central subsystem was intended to assess the legal compliance of the task performance of the audited entities' managing bodies, the regularity of the setup and operation of the internal control system, the existence of a criteria system for the regular, effective, efficient and economic financial management of resources, the regularity of reporting and data supply obligations, the regularity of the reorganisation or restructuring of the institutions, the existence of integrity controls for the management of corruption risks and the enforcement of the integrity approach.

The SAO has supplemented the basic audit of the central subsystem with a performance audit module. The performance audit was intended to assess whether the criteria of effectiveness, efficiency and economy had been established and adhered to in the process of financial management, and whether the enforcement of the effectiveness, efficiency and economy criteria was correctly stated in the management declaration issued on the quality of the internal control system of the budgetary institutions. The scope of the performance audit was strictly limited to financial management tasks with no intention to evaluate professional task performance.

The SAO reports on the institutions of the central subsystem are available by clicking on the names of the institutions under the Section referenced in the highlighted Annex number or can be downloaded from the SAO website ([www.asz.hu](http://www.asz.hu)).

**Annex II,  
Section 4**

Figure 32



### Institutional audits of key priority – Hungarian Central Statistical Office

The SAO report containing the findings of the audit on the HCSO's financial and property management is available by clicking on the highlighted disclosure serial number or can be downloaded from the SAO website ([www.asz.hu](http://www.asz.hu)).

[16065](#)

The SAO report containing the findings of the audit of the IT system and the statistical service is available by clicking on the highlighted disclosure serial number or can be downloaded from the SAO website ([www.asz.hu](http://www.asz.hu)).

[17017](#)

The summaries prepared for the press (also containing the main findings) is available at the links marked with letter "O".

[16065-O](#)  
[17017-O](#)

The reliable and appropriate functioning of the Hungarian Central Statistical Office (HCSO) has a fundamental role in enabling the government, and more extensively, the economic and societal players to make their respective decisions based on veritable and credible information, which is a pre-requisite of good governance. The SAO evaluated the operation and task performance of the HCSO in the context of both thematic and ad-hoc audits.

In 2016, the SAO conducted a comprehensive audit spanning several years in relation to the HCSO's financial and property management as part of the thematic audit of the financial and property management of the institutions of the central subsystem.

The HCSO was audited in the framework of the audit conducted on information system of public finances and the operation of the official statistical service in its capacity as the body of the official statistical service participating in the National Statistical Data Collection Programme. The SAO published the report on the audit conducted in 2016 on 5 January 2017.

The HCSO is affected every year by the audit of the final accounts on the execution of the budget. As part of the final accounts audits, we evaluate the reliability of the performance data on centrally managed expenditure and revenue appropriations, and the regularity of the fulfilment of appropriations, the adjustment of appropriations, the calculation of the budget residue and the compilation of the reports.

### Audit of hospitals

The SAO reports on the hospitals are available by clicking on the titles of the reports under the Section referenced in the highlighted Annex number or can be downloaded from the SAO website ([www.asz.hu](http://www.asz.hu)).

[Annex II, Section 4](#)

In 2016, the SAO published reports on ten hospitals in the context of auditing the financial and property management of the central subsystem. The institutions of the central subsystem – including hospitals – represent significant weight in the use of public funds and in the financial management of state property. During the audits, the SAO assessed the regularity of the task performance of the managing body of the audited entities, and of the setup and operation of the hospitals' internal control system and their financial and property management.

Figure 33



## Conclusions

The control systems set up and operated by the executive officers of the hospitals did not support the regularity, transparency and accountability of public spending; in particular, management did not fully ensure the prevention and detection of irregularities and failed to establish adequate conditions for taking action against the corruption risks threatening the integrity of the organisations. The institutions' financial management was characterised by liquidity problems; solvency was only partly ensured and the payment of suppliers' accounts was in part overdue. This indicates that the managements of the respective hospitals undertook greater obligations than would have been justified by the funds available or by the hospitals' liquidity position. It is a fundamental requirement that hospitals, as organisations managing or using public funds, enforce regularity and transparency in their operations and financial and property management. This is all the more important because the task performance of hospitals have a fundamental impact on citizens' quality of life.

## Recommendations

Based on the findings of the audit, in order to rectify the deficiencies the SAO formulated a total of 233 recommendations with obligations to take action for the 10 hospitals, targeting the elimination of the irregularities detected in the setup and operation of the internal control system and in the financial and property management of the hospitals. The SAO addressed ten recommendations to the Minister of Human Resources and 18 recommendations to the Director General of the National Healthcare Centre (ÁEEK), aimed at the elimination of the deficiencies found in the task performance of the managing body and the middle-management body and the investigation of liability. The audited entities prepared action plans in response to the recommendations in all cases.

## Follow-up audit of hospitals

The SAO published a report on the utilisation of the funds provided for the operation of hospital care in 2013, in which it evaluated the task performance of 20 hospitals in the period between the first half of 2009 and 2012. The report found that financial equilibrium was not ensured at the audited hospitals either during the whole or a part of the period under review. The SAO issued recommendations for five hospitals due to the lack of financial equilibrium in their operations in the year 2011. The respective hospital managements prepared action plans in response.

The 2016 follow-up audit of the report on the audit of the utilisation of the funds provided for the operation of hospital care found that the hospitals did not fully execute the tasks specified in their own action plans by the deadline, which poses a risk to the restoration and maintenance of the financial equilibrium in the hospitals' operation and to responsible managerial conduct. The SAO urged the managements of the audited hospitals to incorporate – and consistently apply – the actions taken into their operating procedures, and called their attention to the risks arising from the delayed or partial execution or non-execution of the tasks.

## Audit of water management directorates

Water management directorates are engaged, among others, in water supply management, protection against floods, groundwater and

**DATA DESCRIBING THE  
OPERATION OF THE AUDITED  
WATER MANAGEMENT  
DIRECTORATES**

<b>7</b>	million people
<b>2,500</b>	settlements
<b>15</b>	counties
<b>6</b>	directorates

The SAO reports on the water management directorates are available by clicking on the titles of the reports under the Section referenced in the highlighted Annex number or can be downloaded from the SAO website ([www.asz.hu](http://www.asz.hu)).

**Annex II,  
Section 4**

droughts, and in the formulation of water management concepts. In the context of regulatory audits inspecting the financial and property management of selected institutions of the central subsystem, the State Audit Office of Hungary conducted audits at six regional directorates out of the twelve water management directorates for the period of 2011–2014. The task performance of the six water management directorates affects a total of 15 counties: more than 2,500 settlements and around 7 million people.

### Findings

The control systems established at the audited water management directorates supported the transparency, accountability and verifiability of public spending. One water management directorate did not ensure the regularity of property management. The relevant managing bodies (as well as the middle-management body) did not exercise their entitlements in accordance with legal regulations.

### Recommendations

In order to rectify the deficiencies, based on the audit findings the SAO formulated recommendations for the Minister of the Interior and for the senior executives of the water management directorates. The recommendations addressed to the Minister of the Interior (6) and to the directors (69) targeted the elimination of the detected irregularities. With a view to facilitating regular and responsible financial management, presidential warning letters were issued to the director of two water management directorates. The audited entities prepared their action plans by the deadline in response to the recommendations, and took action in response to the warning letters. In his action plan sent to the SAO, the Minister of the Interior defined the tasks of all 12 water management directorates, including the execution of inspections aimed at efficient financial management, the compilation of inspection reports and the determination of budget residues in accordance with regulations. The action plans were acknowledged by the SAO.

## Follow-up audit of higher education institutions

The SAO reports on the follow-up audits of the higher education institutions are available by clicking on the titles of the reports under the Section referenced in the highlighted Annex number or can be downloaded from the SAO website ([www.asz.hu](http://www.asz.hu)).

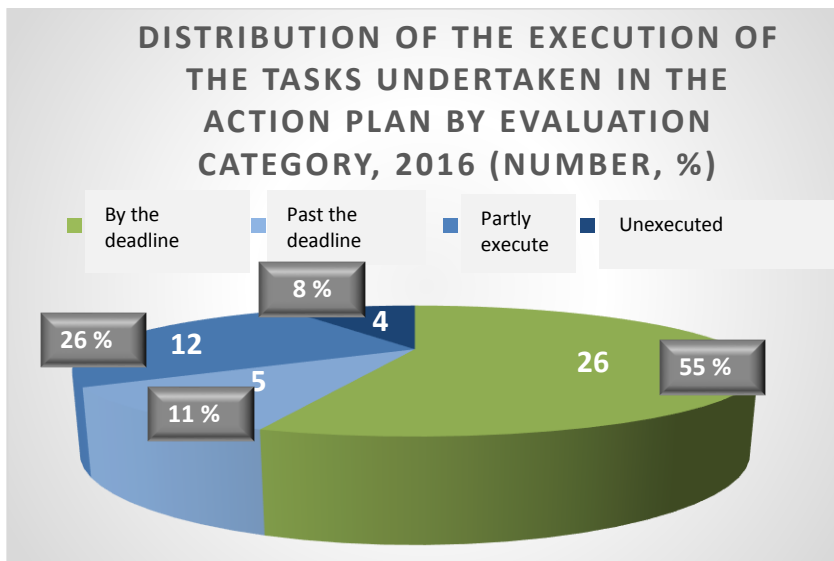
**Annex II,  
Section 4**

In 2016, the SAO commenced the follow-up audit of higher education institutions. By 31 December 2016, the SAO completed the follow-up audit of four reports on the audit of the financial management and operation of four public higher education institutions, and the follow-up audit of a number of additional higher education institutions is still in progress.

The follow-up audits pointed out the risks inherent in the regular operation of the audited entities: unexecuted or partially executed measures signalled risks to responsible managerial conduct and to the regularity of operation; therefore, in order to address and mitigate the risks concerned, the President of the SAO sent warning letters to the executive officers of the audited entities in respect of all four higher education institutions; moreover, in one case he sent a warning letter to the Minister of Human Resources in relation to the detected irregularities.



Figure 34



### Utilisation of aids provided from the central subsystem

The SAO reports on the audits of non-governmental human service providers are available by clicking on the titles of the reports under the Section referenced in the highlighted Annex number or can be downloaded from the SAO website ([www.asz.hu](http://www.asz.hu)).

[Annex II, Section 4](#)

As there is a risk that public spending and the accounting of public funds do not fully comply with the relevant legal regulations, it is a strategic objective of the SAO to reduce the “grey areas” of public spending; in other words, to identify and include previously unaudited areas in the range of audited entities.

Based on the risks identified, such grey areas include the application, use and accounting of grants specified in the acts on the central budget by the operators of non-governmental human service providers and institutions in view of the fact that the central budget provides a substantial amount of (average wage-based) financial support for the activities of the operators of religious and non-governmental institutions performing public education duties. By auditing this particular area, the SAO wishes to ascertain that the use of public funds outside of public finances is not left unaudited and to ensure the transparency of non-governmental operators’ public spending in the course of performing public duties.

In 2016, the SAO commenced the audit of non-governmental human service providers, in the context of which it audited A Art Stúdió Iskolafenntartó Közhasznú Nonprofit Kft. and Humán-Pszicho 2002 Oktató és Szolgáltató Nonprofit Kft. for the period of 2011–2014.

Aids provided from public finances were audited by the SAO at two public bodies. In consideration of the special features of the audited entity, the audit experiences gained during the audit of the Chamber of Hungarian Auditors were presented in more detail under the “Auditing the Auditors” focus area.

Pursuant to its statutory mandate, the State Audit Office of Hungary audits the legal compliance of the financial management of parties and party foundations receiving regular state subsidy from the central budget, including the use of funds in relation to the preparation and execution of repeated municipal elections and the by-elections following the general elections.

The SAO reports on the audits of parties and by-elections are available by clicking on the titles of the reports under the Section referenced in the highlighted Annex number or can be downloaded from the SAO website ([www.asz.hu](http://www.asz.hu)).

**Annex II,  
Section 4**

In 2016, the SAO audited the legal compliance of six parties (Demokratikus Koalíció, Együtt-A korszakváltók Pártja, Magyar Liberális Párt, Párbeszéd Magyarországért Párt, Lehet Más a Politika, Jobbik Magyarországért Mozgalom) (Democratic Coalition, Together – Party for a New Era, Hungarian Liberal Party, Dialogue for Hungary, Politics Can Be Different, Movement for a Better Hungary) and three party foundations (Ecopolis Foundation, Táncsics Mihály Foundation, Foundation for a Prospering Hungary) in relation to the funds spent on the preparation and execution of the repeated municipal elections called in 2014 and of the by-elections held following the 2014 general elections. For the deficiencies detected by the audit, it formulated 68 recommendations for the parties and 18 recommendations for the party foundations. It did not issue a recommendation in relation to the by-elections, as the utilisation of the funds for these purposes was overall targeted and regular. In addition, the SAO issued a recommendation for the National Assembly, advising it to harmonise the content of the reports prescribed by Act C of 2000 on Accounting and by the Party Act, which may improve the transparency, verifiability and accountability of the regular use of budgetary subsidies.

### 3.3. Audit and analysis of the local government sector

*The State Audit Office of Hungary places emphasis on auditing the internal control systems of local governments that constitute the basis of the regularity of their operations and financial management and safeguard against corruption threats, as well as on auditing the financial balance and the regularity of the financial management of local governments. The SAO focuses local government audits on areas where they are most needed based on the risks identified. In 2016, priority was assigned to the investment activities of local governments and to the audit commenced in the second half of 2015 on their debt consolidation. Compared to the previous year, we stepped up the auditing of business associations in majority local government ownership that play an important role in public services. Town museums with county rights appeared in our audits as new subjects.*

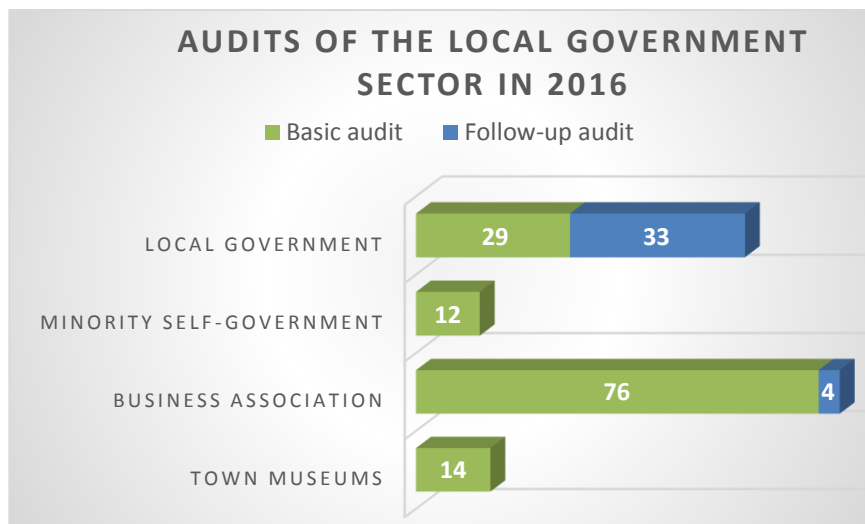


The risk-based approach applied by the SAO and the analysis of financial processes are key elements in efficient and useful audit work. Starting from 2012, the SAO commenced the auditing of the financial management of mid-level local governments – i.e. a high-risk segment including the Capital City, the counties and towns with county rights –, and from 2014 it also began to evaluate the financial balance of these entities. It drew general conclusions from the analysis of local government debt that constitutes a part of the government debt. Since 2011, the financial management of local governments has exerted a positive impact on the balance of public finances through the reduction of public deficit. A positive impact is expected for the year 2016 as well: based on the EDP report released by the HCSO on 21 October 2016, the local government sub-sector is expected to reduce the deficit of the government sector by HUF 15.1 billion.

As part of its preparations for additional local government audits, in 2015 the SAO conducted ad-hoc audits with the purpose of identifying the highest-risk areas of financial management. The ad-hoc audits were conducted among local governments selected on the basis of risk analysis.

The SAO analysed the financial position of the local governments and the financial risks involved, and pointed out that the failure of internal controls and their inability to ensure the regularity and effectiveness of property management was partly attributable to regulatory deficiencies.

Figure 35



### Regularity/compliance audits on the financial and property management of local governments

The SAO reports on the audited local governments are available by clicking on the titles of the reports under the Section referenced in the highlighted Annex number or can be downloaded from the SAO website ([www.asz.hu](http://www.asz.hu)).

[Annex II, Section 5](#)

In 2016, the regularity/compliance audits on the financial and property management of local governments affected 10 local governments selected on a risk basis. In the context of the audits, the SAO evaluated the financial standing and assets of local governments, as well as the regularity of financial management based on the budgeting process, the achievement of financial balance, annual budget reporting, property management, the inventory of assets, the accounting of economic events and the regularity of cash management. In addition, the audits were also intended to assess whether the local governments had put in place – and enforced – the criteria required for the regular and efficient management of resources.

#### Conclusions

Owing to the deficiencies detected in the regularity of financial and property management, accountability and enforcement were not fully ensured by the audited local governments. As a result, some local governments did not manage their financial resources prudently and in view of their limitations and possibilities. Due to the accounting errors of some economic events or the irregular inventory of assets – or a lack thereof –, the accounting balance sheets of some local governments did not provide a true and fair view of their financial standing.

#### Recommendations

The SAO formulated a total of 194 recommendations with obligations to take action for the 10 audited local governments in order to restore the regularity of financial and property management.

## Follow-up audits – follow-up audit on the financial standing and the regularity of the financial management of local governments

The SAO reports on the audited local governments are available by clicking on the titles of the reports under the Section referenced in the highlighted Annex number or can be downloaded from the SAO website ([www.asz.hu](http://www.asz.hu)).

[Annex II, Section 5](#)

In 2016, 2 local governments were subject to the follow-up audit on the financial standing and the regularity of the financial management of local governments, selected on a risk basis. It was in 2013 that the SAO audited the financial management of local governments for the period between 1 January 2010 and 30 June 2013.

The local governments subject to the follow-up audit executed, overall, the tasks undertaken in their respective action plans; therefore, the SAO's findings with obligations to take action in order to restore and maintain the financial balance and to ensure the regularity of financial management were essentially utilised. 59% of the tasks specified in the action plans were executed by the deadline, while 11% were completed past the deadline.

After the follow-up audits, the SAO issued warning letters to call attention to the risks arising from the partial execution or non-execution of the measures. The letters warned that the lack of economically sound revenue planning poses a threat to the balance of operational costs; the lack of action regarding overdue suppliers' accounts may lead to the re-accumulation of debt; the failure to publish contract modifications threatens the transparency of public spending; and the failure of the representative council to prepare a proposition regarding the future fulfilment of obligations and the preservation of solvency poses a risk to the maintenance of the local government's solvency.

## Follow-up audits – regularity audit on the property management of local governments

The SAO reports on the audited local governments are available by clicking on the titles of the reports under the Section referenced in the highlighted Annex number or can be downloaded from the SAO website ([www.asz.hu](http://www.asz.hu)).

[Annex II, Section 5](#)

In order to enforce the criteria of the transparent and responsible management of national assets in the financial management of local governments in line with the provisions of the Fundamental Law and of the Act on National Assets, in 2013 the SAO audited the property management of local governments for the period of 2007–2011. The local governments have prepared action plans in response to the SAO recommendations aimed at the restoration of the regularity of property management. In 2016, the SAO conducted follow-up audits on the regularity of property management at 12 local governments. 44% of the tasks specified in the action plans were executed by the deadline, while 14% were completed past the deadline.

### Conclusions

The fact that 42% of the local governments failed to execute the tasks aimed at the restoration of regular property management and asset inventory implies that the local governments concerned failed to ensure not only the protection and safeguarding of local government property that constitutes a part of national wealth, but also the responsible and regular management of public property, accountability and compliance with the principle of authenticity under the Act on Accounting. Moreover, failure to comply with the statutory requirements pertaining to the disclosure of data of public interest implies that the enforcement of transparency was not ensured.



### *The SAO's proposal*

Severe deficiencies may warrant asset protection measures.

By taking action to restore the regulatory environment, the local governments took steps in the direction of regular property management and the reduction of risks. In order to accomplish the responsible and regular management of public property, the local governments still face the task of implementing the remaining measures specified in the warning letter, maintaining the results achieved through the implementation of the measures and enforcing the measures in their operations.

### Warning letters

Based on the follow-up audits, the President of the SAO issued warning letters to indicate the risks based on the findings aimed at the execution of the action plans and the necessity of additional action. The executive officers of the audited entities assessed the contents of the warning letters and notified the President of the SAO of the actions taken.

## Audit on the internal control systems and investments of local governments

The SAO reports on the audited local governments are available by clicking on the titles of the reports under the Section referenced in the highlighted Annex number or can be downloaded from the SAO website ([www.asz.hu](http://www.asz.hu)).

**Annex II,  
Section 5**



In the context of the regularity audit on the internal control system and investment activity of local governments selected on a risk basis, reports on 11 local governments were published in 2016. The SAO's audits were intended to assess whether the setup of the internal control system of the local governments and the functioning of its individual components ensured the regularity of the use of public funds in the period between 1 January 2014 and 30 April 2015. Moreover, the SAO checked whether the specific investment decisions of the local governments – including the implementation and accounting of the decisions – complied with the relevant legislation and internal regulations, and whether the established control system supported the regularity of the investment activity in the period between 1 January 2011 and 30 April 2015.

### Conclusions

The internal control system did not ensure the regularity of operations and the enforcement of the requirements of economy, efficiency and effectiveness. Due to the deficiencies of the setup and operation of the internal control system the regular use of public funds, including the regularity of investment activities, was not ensured. The inconsistent regulation of investment competences, the irregular exercise of the powers of decision-makers and the lack of the documentation of pre-decision and decision-making processes impeded the accountability of decision-makers. In many cases, the lack of documents supporting the accounting of the investments, incorrect book values and the inadequate maintenance of the itemised register rendered the reconciliation, control and stocktaking of invested assets impossible. Due to the lack of stocktaking or the irregularities thereof, the inventory and preservation of public assets was not ensured.

### Recommendations

The SAO formulated a total of 121 recommendations with obligations to take action for the 11 local governments to ensure the regularity of the setup and operation of the internal control system and the regularity of the execution of accounting duties.

## Follow-up audits – follow-up audit on the setup of the internal control systems of local governments, on specific control activities and on internal audit

In 2016 the SAO conducted follow-up audits on the internal control system of 19 local governments.

Deviations observed with respect to the pillars of the internal control system in comparison to the findings stated in the study published in 2015 under the title “Experiences of the auditing of the internal control systems of local governments” confirm that the local governments took action to reduce the risks associated with their operation and financial management in relation to the setup of their respective control environment and information and communication systems. That notwithstanding, contrary to the SAO’s recommendations, the setup and operation of the risk management system, the control activities and the monitoring system – including internal audit – continue to pose a risk to responsible managerial conduct, to the regularity and transparency of financial management and to the formulation of protective measures against corruption and fraud.

Based on the evaluation of the performance of the 445 tasks defined in the action plans in total, the ratio of partial execution or non-execution was 49%, which is still high compared to the ratio of execution by or past the deadline (49%, while 2% of the tasks were no longer pertinent or lost their relevance). These results reconfirm the need for follow-up audits, as regularly performed follow-up audits contribute to the effective implementation of the required actions, and hence, to improving the orderliness of public finances. They demonstrate that the era of audits without consequences is over.

In relation to the follow-up audits, the President of the SAO issued warning letters to indicate the risks based on the findings aimed at the execution of the action plans and the necessity of additional action. The executive officers of the audited entities notified the President of the SAO of the actions taken.

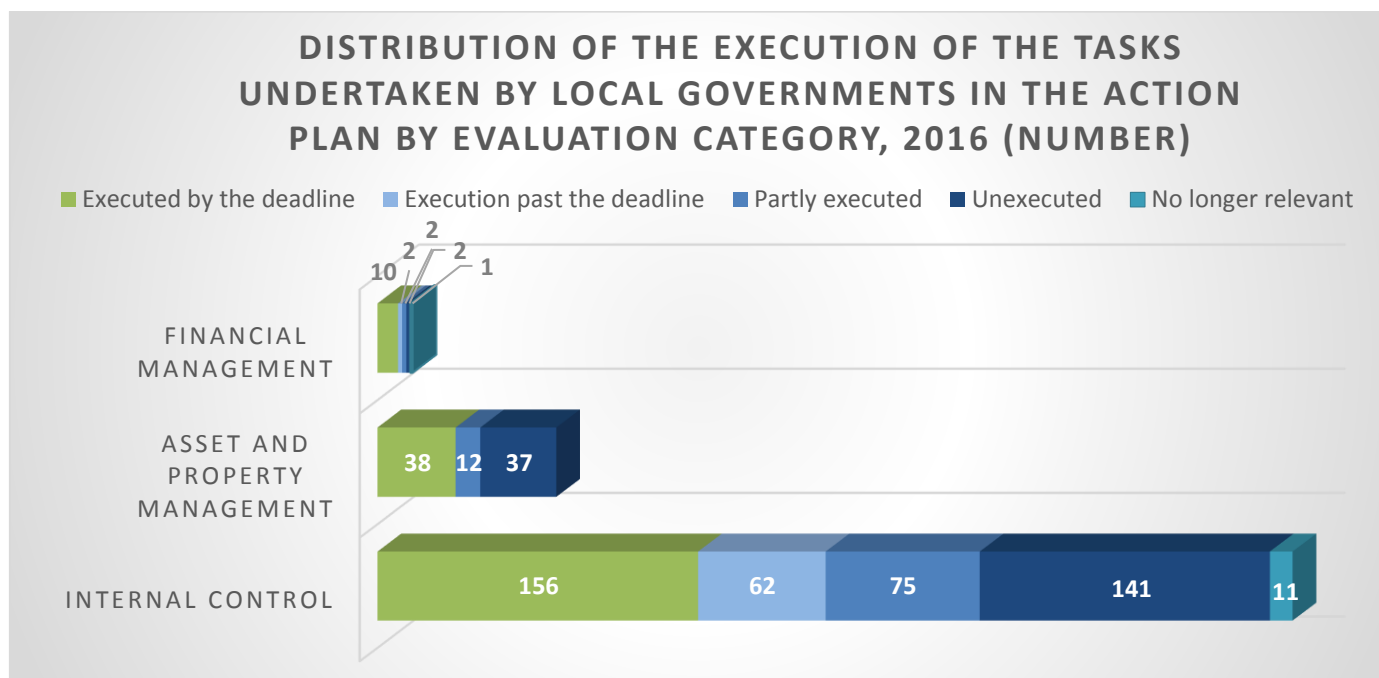
The SAO reports on the audited local governments are available by clicking on the titles of the reports under the Section referenced in the highlighted Annex number or can be downloaded from the SAO website ([www.asz.hu](http://www.asz.hu)).

**Annex II,  
Section 5**

## Experiences of the follow-up audits of local governments

The experiences gained during the follow-up audits of local governments suggest that most of the recommendations issued by the SAO were utilised in the area of financial management; however, deficiencies persist in the areas of property management and internal controls. This is illustrated by Figure 36:

Figure 36



### Audit on the debt settlement of local governments

The SAO reports on the audited local governments are available by clicking on the titles of the reports under the Section referenced in the highlighted Annex number or can be downloaded from the SAO website ([www.asz.hu](http://www.asz.hu)).

**Annex II,  
Section 5**

Selected on a risk basis, seven local governments were subject to audits on debt settlement in 2016. In the context of the audits, the SAO assessed the regularity of the commencement and execution of the debt settlement procedure and the legal compliance of the local governments' financial management during the debt settlement procedure i.e. whether the participants of the procedures, in particular, the financial trustee, complied with legal regulations during the debt settlement process. It also inspected and assessed whether the debt settlement procedure achieved the statutory objectives upon completion.

#### Conclusions

The irregular task performance of the debt settlement procedure's participants – namely, the mayor, the notary and the financial trustee – jeopardised the achievement of the procedure's objectives. In the lack of an asset inventory or report prepared upon the commencement of debt settlement, they did not have accurate information on the assets to be included in the debt settlement procedure. This may have contributed to the fact that, although the debt settlement procedure concluded with a composition arrangement in the case of five local governments, only one local government settled the payment obligation undertaken in the arrangement in full. As a result of government intervention, in two cases the affected local governments were only required to pay 15.7% and 17.4% of the payment obligation undertaken in the arrangement from their own funds. Even this obligation was not settled in full, which calls into question the soundness of the arrangements. Two local governments failed to enter into a composition arrangement with their creditors, and the court ordered the distribution of assets. In one case, none of the creditors' claims has been paid, while in the other case the assets only covered one third of creditors' claims. Based on the SAO's experiences regarding the debt settlement process, neither the distribution of assets, nor the conclusion of composition agreements ensured the efficient legal protection of creditors. The non-performance of the obligations under-



#### *The SAO's proposal*

There may be a need for a legislative environment that efficiently addresses both the underlying reasons of indebtedness and creditors' interests and imposes adequate sanctions on irresponsible financial management or non-compliance with the rules.

taken in the arrangements implies that the solvency of local governments could not be restored. After the debt settlement procedures, it was only debt consolidation that could generate a more significant change in the financial position of local governments and facilitate the restoration of financial balance. Nevertheless, the fact that the accounting systems of several local governments failed to supply reliable data on the organisation's financial position and that the local governments did not prepare liquidity plans as per the legal regulations and did not have or failed to implement a reorganisation programme, points to the debt settlement procedure's failure to facilitate carefully planned, responsible financial management for the prevention of the re-accumulation of debt. Since the debt settlement procedure did not improve the situation of either the creditors or the local governments, there may be a need for a legislative environment that efficiently addresses both the underlying reasons of indebtedness and creditors' interests and imposes adequate sanctions on irresponsible financial management or non-compliance with the rules.

### Recommendations

The SAO formulated a total of 34 recommendations with obligations to take action for the seven local governments, primarily in relation to the regularity of the setup and operation of their internal control systems and the preparation of liquidity plans.

## Regularity audits on the financial management of local minority self-governments

The SAO reports on the minority self-governments are available by clicking on the titles of the reports under the Section referenced in the highlighted Annex number or can be downloaded from the SAO website ([www.asz.hu](http://www.asz.hu)).

**Annex II,  
Section 5**

Regularity audits on the financial management of local minority self-governments in 2016 involved 12 local minority self-governments selected on a risk basis. In the context of the audits, the SAO assessed whether the setup of the operational and financial management framework of local minority self-governments and the execution of the tasks of financial management complied with legal regulations and whether the setup and operation of the operational and financial management framework facilitated the enforcement of the integrity approach.

### Conclusions

Due to deficiencies of the setup and operation of the internal control system, responsible financial management was not fully ensured at the audited minority self-governments. The setup and operation of the internal control system did not facilitate the regular use of public funds. As a result of the irregular exercise of financial management powers, the established control activities did not facilitate the prevention and detection of errors. The self-tests developed by the SAO may be utilised for the purposes of error prevention.

### Recommendations

The SAO formulated a total of 156 recommendations with obligations to take action for the 12 minority self-governments to ensure the regularity of the setup and operation of the internal control system and to restore the regularity of financial management.



## Audit on the distribution of resources – review of the local government decree on the distribution of revenues among the Municipality of Budapest and the Budapest district local governments in 2015

The SAO report containing the findings of the audit on the distribution of resources is available by clicking on the highlighted disclosure serial number or can be downloaded from the SAO website ([www.asz.hu](http://www.asz.hu)).

[15216](#)

The purpose of the audit was to assess the regularity of the distribution of revenues among the Municipality of Budapest and the Budapest district local governments as prescribed by the Resource Distribution Decree of 2015, as well as the regularity of the calculation and accounting of the expenditures related to local taxation. The audit found that, apart from minor deficiencies, the Municipality of Budapest performed its task in accordance with legal regulations. As the audited entity eliminated the detected deficiencies by the end of the audited period, the SAO did not issue findings and recommendations with obligations to take action.

## Business associations owned by local governments

### AUDITED BUSINESS ASSOCIATIONS OWNED BY LOCAL GOVERNMENTS

2011-2015	2016
49 reports	80 reports

In 2016, the SAO published 80 reports on the audit of business associations majority-owned by local governments, including four follow-up audits. The reports supplemented the audit experiences gained during the audit of 49 companies majority-owned by local governments in the period between 2011 and 2015.

### Conclusions

As was the case in the previous period, the audits conducted in 2016 also detected deficiencies in the cost accounting practice of local government-owned business associations; namely, in the substantiation of fee calculation and the exercise of proprietary rights. A high percentage of the companies failed to comply – or only partly complied – with their disclosure obligation under the Privacy Act. According to the audit experiences, the financial management of business associations owned by towns with county rights is more regulated and more regular than that of companies owned by smaller local governments.

Adequate planning is indispensable for the efficient and sustainable operation of companies majority-owned by local governments. In our view, there is a need to define certain requirements and criteria that ensure the measurability and rating of services. In order to meet the objectives expected of the service providers, clear requirements should be set for the management of the companies, and their ability to meet the requirements should be continuously monitored and their execution evaluated.

The owner local governments, on their part, should reinforce ownership control primarily by requiring more substantiated annual planning and business plans supplemented by meaningful criteria and by requesting professional reports in addition to accounting reports for an analysis-based evaluation.

Based on the analysis published in January 2017 on waste management companies, ensuring uniform public service price levels would be a key factor in fostering the equal opportunities of citizens, as unreasonably high fees jeopardise the livelihood of families. Although the introduction of centralised price controls and the implementation of the measures aimed at the reduction of utility charges implied an important step to-

The SAO reports on the audits of local government-owned business associations are available by clicking on the titles of the reports under the Section referenced in the highlighted Annex number or can be downloaded from the SAO website ([www.asz.hu](http://www.asz.hu)).

[Annex II, Section 5](#)

The study is accessible by clicking on the highlighted publication number, or can be downloaded from the SAO website ([www.asz.hu](http://www.asz.hu)).

T/415

ward a uniform, value-proportional pricing framework, there are still significant price differences between or even within (in terms of users) individual jurisdictions. This might be partly attributable to the different features of individual settlements, diverging service levels, the distortions inherited from local government pricing regulations, or to the unreliability of the data provided to the Hungarian Energy and Public Utility Regulatory Authority.

In response to the problems observed – and also confirmed by the SAO – in the area of debt management, the legislator set the objective of establishing a regular, efficient and effective debt management system. To that end, in 2016 it established the National Waste Management Coordination and Asset Management Company, whose statutory tasks include the collection of public service fees and the management of outstanding claims resulting from the provision of the public service.

Based on the audit, the SAO concluded that operational and financial management risks may be reduced through the enhancement of the efficiency of the work performed by the owners and by the supervisory and regulatory bodies, and through the improvement of the public service.

### Recommendations

Based on the audit findings, the SAO formulated a total of 505 recommendations in the reports in order to rectify the regulatory deficiencies detected and eliminate the irregular practice. In response to the recommendations, the audited organisations submitted their action plans or the preparation of the action plans is in progress.

## Audit of town museums with county rights



Town museums with county rights are of key significance from a cultural perspective in terms of their geographical locations and their tasks and in terms of the number of visits. In the framework of the audit of town museums with county rights, the SAO issued 14 reports in December 2016 and five reports in February 2017. The audits assessed and rated the financial and property management of town museums with county rights (including their legal predecessors), the setup and operation of their internal control systems, the task performance of the managing body, the transformation of the county museum system, the implementation of the changes in the system of institutional operators and the enforcement of the integrity approach in financial management.

### Conclusions

The control systems established at the museums did not ensure the transparency, accountability and verifiability of public spending. The failure to indicate the obligation of filing asset declarations demonstrates that the museums did not take action to ensure the integrity of public life and the prevention of corruption. The museums failed to set up and operate an internal audit system, whereby they failed to ensure the first line of defence in public spending. Due to the insufficient performance of the disclosure obligation, the operation of the museums was not transparent. As regards property management, in 2012 individual assets were recorded irregularly in the museums' books without justifiable legal grounds. In the lack of asset management contracts, the range and volume of the as-

The SAO reports on town museums with county rights are available by clicking on the titles of the reports under the Section referenced in the highlighted Annex number or can be downloaded from the SAO website ([www.asz.hu](http://www.asz.hu)).

**Annex II,  
Section 5**

sets managed could not be determined in 2013–2014; therefore, accountability was not ensured.

In relation to the registration of cultural assets and due to the deficiencies associated with the borrowing of the assets, the inventory, protection and security of cultural assets was not ensured.

Deficiencies detected in financial and property management carry the risk of corruption and fraud.

### **Recommendations**

Based on the audit findings, for 19 museums the SAO formulated a total of 516 recommendations with obligations to take action, of which 375 recommendations were addressed to the director of the given museum, 48 to the head of the economic organisation and 93 to the head of the managing body.

Of the 47 organisations that were obliged to prepare action plans, only 8 submitted an action plan within thirty days with action plan items that complied with the SAO's recommendations and the underlying findings with obligations to take action. Apart from these latter organisations, the SAO requested the executive officers of the audited entities to supplement their respective action plans.

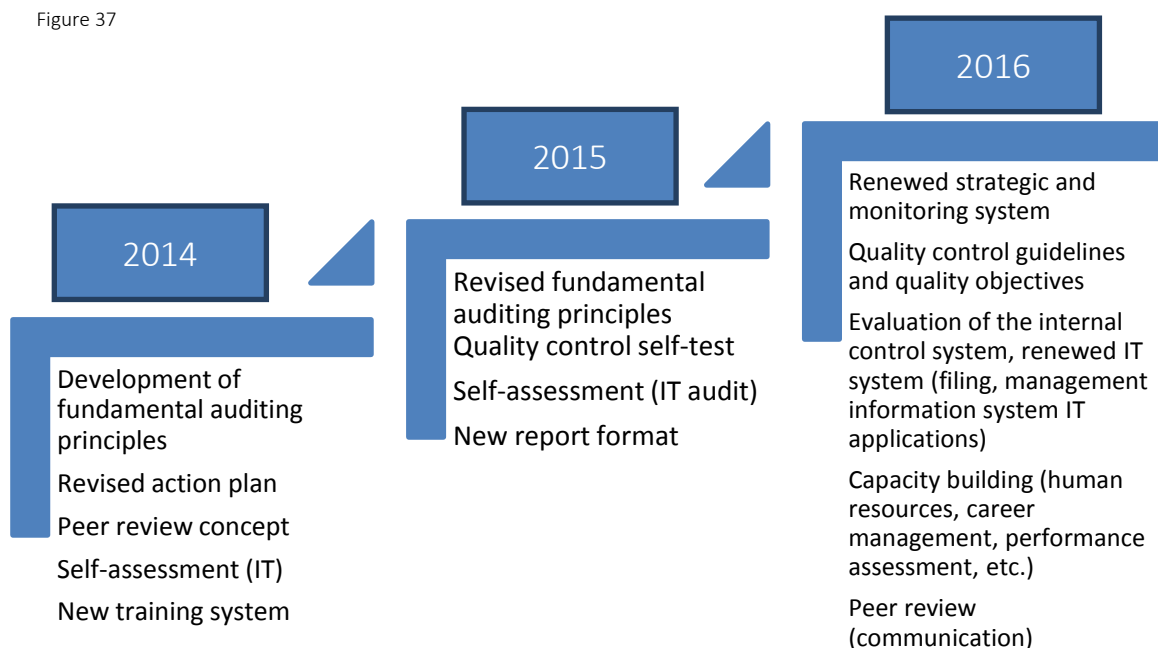
### III. ORGANISATIONAL AND METHODOLOGICAL PROGRESS

*In line with its Strategy, the State Audit Office of Hungary is committed to quality-oriented operation. Accordingly, the main organisational development objective of the SAO is to set up an optimal organisational system aligned with the tasks to be performed. With that in mind, the SAO alters and enhances its organisational structure continuously.*

*From time to time, the SAO renews its methodologies as appropriate in order to ensure the application of contemporary, modern and efficient methods along with the efficient utilisation of resources to facilitate objective audits with easy-to-utilise results.*

The main organisational development and methodological improvements are illustrated by Figure 37.

Figure 37



# 1. Strategic changes

*One of the most important operating principles of a self-learning organisation is the ability to grow and review its objectives and way of thinking continuously. Therefore, even though the strategy is intended to determine the organisation's long-term objectives, it is advisable to review and change or renew the objectives from time to time, as appropriate. Based on these considerations, the State Audit Office of Hungary initiated the review of sub-strategies in order to ensure a more structured appearance of organisational objectives and tasks in the framework of strategic documents, to formulate, as appropriate, new objectives, to adapt to potential changes in the legislative environment, to strip out the redundancies observed, to aim the objectives more clearly at the utilisation of the work as the primary audit value, and to ensure their measurability.*

The renewed strategic document system is available by clicking on the highlighted term "strategy", or can be downloaded from the SAO website ([www.asz.hu](http://www.asz.hu)).

[strategy](#)



## Renewal of sub-strategies

By definition, organisational strategy is a concept or forward-looking guidance that states the long-term objectives of the organisation and defines the resources and main development actions required for the achievement of the objectives: an evaluation and objective-setting activity and the sum of the ideas about the future goals of the organisation and the methods of their implementation. Essentially, the implementation of the strategy is the measure of institutional success. With that in mind, the State Audit Office of Hungary commenced in 2015 and completed in early 2016 the review of its official framework of strategic documents and formulated a number of new sub-strategies as a result. The revised sub-strategies can be traced back to the main strategic principles, but they define task-sets for a time horizon of 3 to 4 years. The set of objectives laid down in the document formulates well-structured objectives with the application of a uniform and coherent conceptual framework, bearing in mind the fundamental principles of supreme audit institutions' operation. The renewed strategic document system is available on the SAO's website.

## Renewal of the strategic monitoring system

In its Strategy, the State Audit Office of Hungary expressed a commitment to continuous organisational renewal and development and to quality-oriented operation. For the sake of sustainable development, the SAO supports organisational transformation and the learning and self-learning process leading to it. The organisation advances from one stage to the next by utilising the experiences gained. In order to tackle these changes and modifications, the SAO reviewed its strategic monitoring methodology as an organic part of the transformation and renewal process. As a result of the review, in 2016 the SAO replaced its previous linear, cascade method by a spiral model and started to apply the new model in planning from 2017. This model is capable of tackling the cyclicity and interrelatedness of strategic planning that supports advancement from one stage to the next. With the new methodology, in the framework of **organisational strategic management** processes managers may obtain relevant information about the progress of the tasks supporting the accomplishment of the objectives during execution or even months in advance, including any hang-ups or events that may delay the solution.

With timely feedbacks and performance measurement, governance wishes to improve the efficiency of the SAO's organisational performance.

## 2. Quality control system

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*In line with its Strategy, the State Audit Office of Hungary is committed to quality-oriented operation. In this spirit, it has established, operates and constantly reviews and develops its quality-related processes and procedures.*



The SAO has developed an efficiently functioning quality control system in recent years. It prepared the document entitled "The SAO's principles of quality-driven operation" by taking into account the principles of "Quality Control for SAIs (ISSAI 40)", the international standard issued by INTOSAI.

The continuous operation, supervision and assessment of the quality control system, as well as the formulation of development proposals impacting the system as a whole is performed by an organisational unit that is independent both in terms of organisation and control, and which is responsible for the enforcement of quality control principles adopted in line with the guidelines of international standards.

In the interest of efficiently enforcing ISSAI 40 within the organisation, the organisational unit responsible for the performance of tasks related to quality-driven operation prepared Quality Control Guidelines in 2016, contributing to the practical implementation of quality control principles and the continuous development of the quality control system. The SAO's management ensured that all employees are aware of the quality control system, including the quality policy. The quality objectives of the SAO for 2016 were defined along the lines of the quality policy and the priorities determined by the SAO's management. Based on the guidelines, the various organisational units themselves established the procedures, principles and controls needed to ensure that requirements were met. The regular annual review designates additional development directions.

## 3. Internal control system

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*The internal regulatory environment (control environment) is a strategic pillar of the SAO's internal control system and as such, the organisation places great emphasis on ensuring that the operation of its units is transparent and reflects up-to-date controls. The SAO assessed and evaluated the operation of the organisation-level internal control system for the year 2016.*

As in the previous year, the SAO operated a high-quality internal control system in 2016. The five pillars of the internal control system were evaluated as follows:

- The **control environment** was stable. Apart from the adjustments arising from legal regulations and organisational changes, the internal control tools regulating the SAO's activity did not change significantly in 2016 compared to the previous years.

- In operating the **risk management system**, the organisational units assessed, evaluated and addressed the risks and reviewed the outcomes. The SAO ensures in all of its processes the identification and assessment of risks, the formulation of response measures to address any risks above the acceptable risk level and the monitoring of response measures through the requirement of the regular review of risks and risk management processes.
- In the area of **control activities**, responsibilities were adequately separated both in internal control tools and in job descriptions. The “four eyes principle” was applied both in financial and real processes, and the continuity of task performance was ensured via delivery-acceptance protocols and their control by internal audit and the administrative area.
- During the operation of the **information and communication system**, the timely availability of information was ensured. In this area, the SAO introduced a new document management system and an application supporting the management information system; both systems support work performance and the availability of information more efficiently. The SAO fulfilled its disclosure obligation regarding the mandatory publication of data prescribed by the Privacy Act and the relevant data are available on the SAO’s website. The SAO’s external communication, as well as its internal communication between its organisational units, is regulated; the SAO’s website and news portal draw an increasing amount of attention.
- As part of the **monitoring system**, the SAO operated a monitoring system that tracks the performance of its activities and evaluates operative activities. The President of the SAO made arrangements for the formulation and proper functioning of an internal audit system that is independent of operative activities and made available the resources required for the operation of internal audit.

## 4. Capacity building

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*To maximise the efficiency and quality of its task performance, the SAO ensures the development of its human resource and infrastructural capacities, while also taking advantage of the potentials of international knowledge sharing.*

In 2016, the SAO operated at maximum capacity utilisation. The organisation’s average staff number amounted to 598 according to the calculations prescribed by law. The SAO also involved external specialists in its task performance with 11,127 auditor days, which was made possible by the savings in non-personnel expenses.

In accordance with its Strategy, in the framework of quality-oriented operation it is the SAO’s aspiration that – in compliance with the requirements concerning task performance and using the resources available – each position is filled by the most appropriate person, thus ensuring that the necessary skills, abilities, qualifications and professional experience (in summary: competences) are available. With that in mind, the SAO de-

### *What is the Goal Team?*

The 2011–2017 Strategic Plan approved at the 2011 Lisbon Conference of the EUROSAI, the organisation defined its strategic objectives as well as the organisational structure required for their achievement. The EUROSAI set up independent units ('Goal Teams', i.e. working groups) to further the implementation of each strategic objective. Since the IX EUROSAI Congress (June 2014), the SAO has been in charge of the leadership of the EUROSAI Capacity Building Goal Team.

veloped a career management framework that defines the fundamental principles and concepts of the system. The creation of knowledge centres and the renewal of the performance assessment system are organically connected to the career management framework. High quality expertise was ensured by the SAO's extensive training system.

As leader of the EUROSAI Goal Team 1 (Capacity building), in 2016 the SAO hosted two meetings in Budapest. By integrating the results of Goal Team 1, the SAO actively contributed to ensuring the maximum utilisation of the next EUROSAI strategy by participating SAIs and the citizens maintaining the institutions.

Within the framework of the EUROSAI IT working group, at the March 2016 work meeting of the specialist group engaged in IT self-assessments, the representative of the SAO presented the results of the IT audit self-assessment conducted by the State Audit Office in 2015.

In keeping with its Strategy, the SAO places great emphasis on fast information flow and dynamic organisational data processing. In order to foster the enforcement of this principle, an important task of 2016 was to design a new document management system, which was put into operation on 1 January 2017. In response to current security challenges and the changes in legal requirements, the SAO renewed its IT Security Policy. In order to support the creation and maintenance of risk-proportional protection, the SAI identified the processes involved in information security. The security services of the basic IT infrastructure were expanded, with special focus on the operational safety-oriented development and harmonisation of the SAO's existing infrastructural equipment.



# THE FINANCIAL MANAGEMENT OF THE SAO IN 2016

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*The Report of the State Audit Office of Hungary on its financial management in 2016 is based on the data of its institutional budgetary statement prepared in accordance with the relevant legal provisions. The State Audit Office of Hungary comprises an independent chapter in the structure of the central budget and as such, the transparency of its budgetary statement and the presentation of its processes are of key importance in the execution of the central budget.*

## 1. Budgetary statement of the SAO

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*The annual budgetary statement of the State Audit Office of Hungary as at 31 December 2016 has been audited by an independent chartered accountant selected and appointed by the Speaker of the National Assembly in a public procurement procedure. The audit included the sampling-based inspection of the invoices substantiating the factual figures of the budgetary statement; the evaluation of the applied accounting principles and the presentation of the annual budgetary statement; and the review of the internal regulatory environment.*

*Having reviewed the 2016 financial management of the State Audit Office, the auditor found that the SAO's financial management was in compliance with the relevant legislation and internal policies, reasonable and cost-efficient, supporting the performance of its core activity. Based on the auditor's opinion, the annual budgetary statement provides a true and fair presentation of the execution of the 2016 budget of the SAO as well as on its financial position as at 31 December 2016 and the results of its financial management for the year then ended.*

### 1.1. Budgetary appropriations and their fulfilment

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*Pursuant to Act C of 2015 on the 2016 central budget of Hungary, the National Assembly allocated HUF 8,567,800 thousand for the discharge of the SAO's duties, of which HUF 8,547,800 thousand was covered from budgetary subsidies and HUF 20,000 thousand from the SAO's own revenues.*

#### **Appropriation adjustments**

In compliance with the provisions of Government Decree No. 368/2011 (XII. 31.) on the Implementation of the Act on Public Finances, as a result of adjustments realised during the current year under various titles and in an amount of HUF 814,299 thousand, the amount of original expenditure and revenue appropriations increased to HUF 9,382,099 thousand, as follows:

#### *In government competence*

- ✓ the compensation support for wage compensation and child-care benefit recipients under Government Decree No. 400/2015 (XII.15.) is HUF 1,417 thousand,

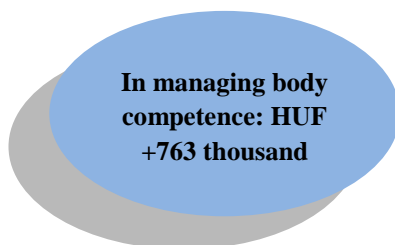
- ✓ the appropriation refunded based on the accounting of wage compensation support as per Government Decree No. 1226/2016 (V.2.) amounts to HUF 411 thousand,
- ✓ the appropriation for employer costs related to the “Prime Years” Programme pursuant to Act CXXII of 2004 is HUF 4,244 thousand,
- ✓ the effect of the change in the base remuneration under Act LXVI of 2011 on the State Audit Office of Hungary is HUF 19,383 thousand.

*In managing body competence*

- ✓ surplus budget revenue amounts to HUF 763 thousand.

*In institutional competence*

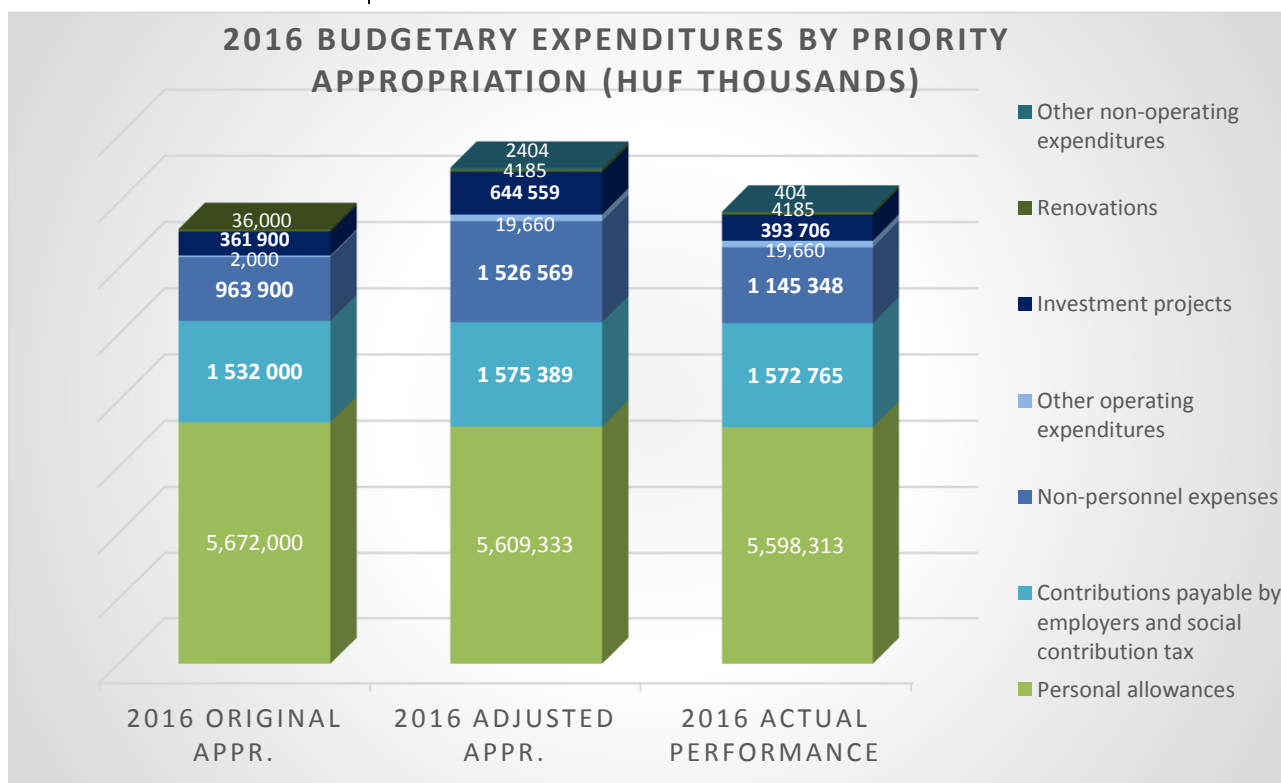
- ✓ the increase in the previous year’s residue appropriation is HUF 787,024 thousand, of which uncommitted residue amounts to HUF 2,241 thousand,
- ✓ the appropriation increase arising from the recovery on employer housing loans is HUF 1,879 thousand.



**Expenditures**

In 2016, substantial adjustments to priority expenditure appropriations were effected under the titles of non-personnel expenses and non-operating expenditures.

Figure 38



The modified expenditure appropriation for 2016 was fulfilled at 93.1% (HUF 9,382,099 thousand). Of the fulfilled budgetary expenditures, the share of personal allowances and contributions payable by employers was 82.1%, of non-personnel expenses and other operating expenditures 13.3%, and of renovations and other non-operating expenditures a total of 4.6%.

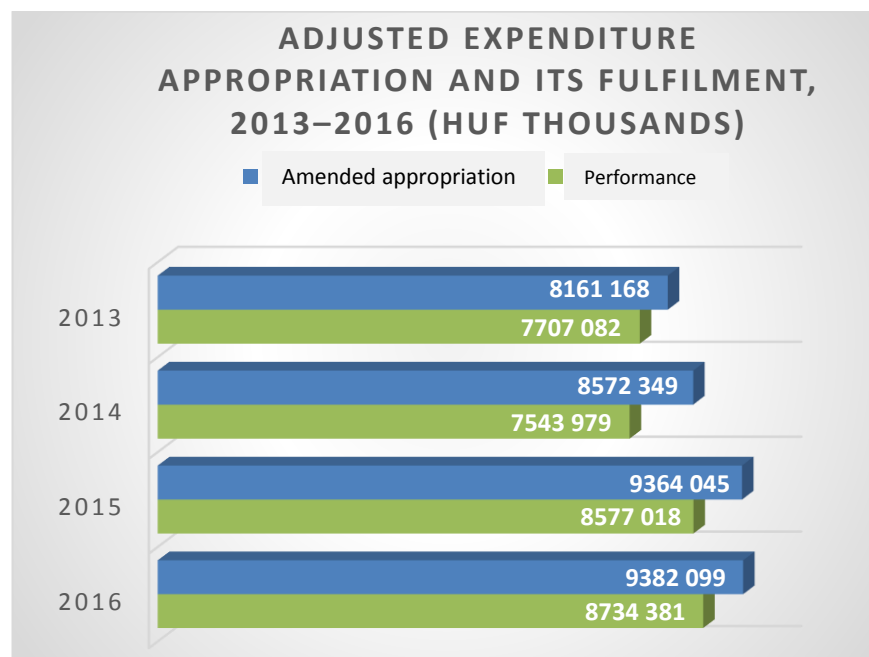
The change in priority appropriations in 2016 was justified by the accounting of the previous year's residue, the change in the share of external specialist' service contracts and the update of appropriations adjusted to chargeable events.

Of the expenditure appropriations, the original appropriation for investment expenditures rose by HUF 282,659 thousand, accounting for 35% of the increase in the budgetary expenditure appropriation. In the budget year of 2016, the utilisation of the previous year's residue accounted for nearly one third (31.7%) of the adjusted appropriation for non-operating expenditures (HUF 648,744 thousand). 99.9% of the adjusted appropriation for investment-purpose non-operating expenditures is committed, to be fulfilled in 2017.

The original appropriations allocated to the State Audit Office in the Budget Act rose by 11.5% between 2013 (HUF 7,680,800 thousand) and 2016 (HUF 8,567,800 thousand). The growth resulted from the remuneration base increase arising from the SAO Act on the one hand, and from the appropriation increase allocated to the extra work pursuant to the Election Act on the other hand. Between 2013 and 2016, adjusted appropriations rose by 15%. Expenditure appropriations were fulfilled at 94% in 2013, 88% in 2014, 92% in 2015 and 93% in 2016.

The appropriations available ensured the operational conditions required by the SAO for the uninterrupted discharge of its duties.

Figure 39

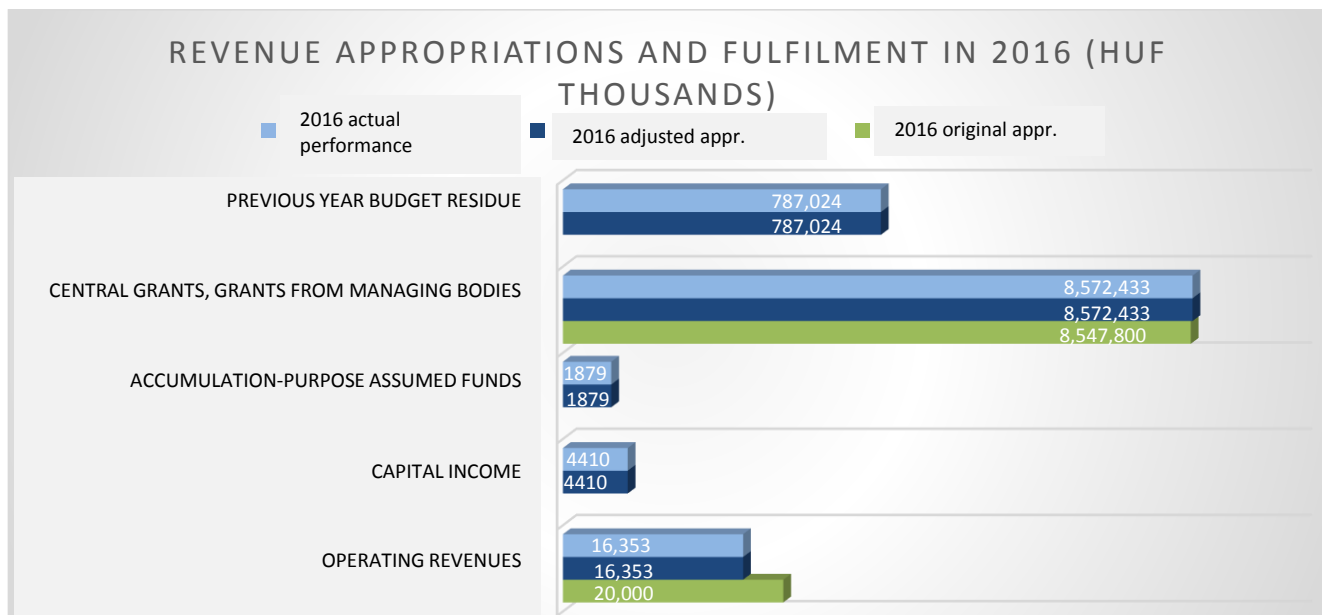


### Revenues

Of the 2016 revenue appropriations, the amount of central grants and grants from managing bodies was budgeted as HUF 8,547,800 thousand

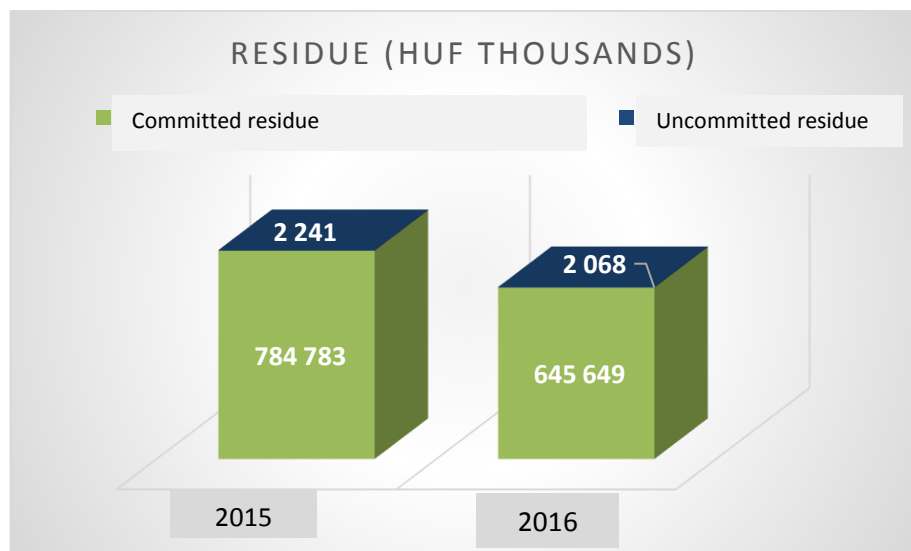
and the total budgeted amount of the appropriations for operating own revenues was HUF 20,000 thousand. Grants rose by HUF 24,633 thousand during the year, mainly reflecting the change in the remuneration base under the SAO Act, and grants requested for wage compensation and for the remuneration of workers employed under the “Premium Years” Programme.

Figure 40



The amount of residue generated in the reporting period of 2016 was HUF 647,717 thousand, of which committed residue amounted to HUF 645,649 thousand (99.7%), and uncommitted residue came to HUF 2,068 thousand. Residue from the previous year raised the original appropriation by HUF 787,024 thousand in 2016, of which HUF 18,343 thousand was paid into the central budget in the breakdown specified by Government Decrees No. 1768/2016 (XII.15.) and No. 1822/2016 (XII.22.).

Figure 41



## 2. The effectiveness of financial management

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*As in previous years, in accordance with its Strategy, the SAO's financial management in 2016 was characterised by the preservation of the fundamental values of effectiveness, efficiency and economy, sustainable development and the sparing use of resources.*

### 2.1. Achievements in process optimisation

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#### Measures demonstrating the effectiveness of organisational operation

- ✓ In the area of financial management, the SAO launched a series of measures aimed at a more consistent and more efficient use of resources over the past five years. As a result of its organisational development, the number of working days available for audits increased. Savings achieved by the optimisation of workflows were reinvested in investment projects.
- ✓ As regards the public procurement procedures commenced by the SAO as Contracting Authority, there was a positive shift to centralised public procurements (40.9% of the procedures) in 2016. Consequently, as a voluntarily joined institution, we contributed to improving the predictability of procurements, increasing transparency and reducing the time spent on administrative duties.

#### Measures generating an increase in available capacities and savings

- ✓ Closely related to the process optimisation commenced at the Finance Directorate in 2014, an important objective of the SAO was to achieve a more optimal use of human resources. Parallel to the consolidation of positions at the Finance Directorate, the number of tasks performed in auditor positions declined sharply, with a concurrent increase in employment under the Labour Code. During 2016, the average number of auditors employed at the Directorate continued to decline: compared to the initial value of January 2014, the share of auditor positions dropped to 38.3%. Besides the increase in the ratio of auditors participating in audits and in the number of available auditor days, within the organisation of the State Audit Office of Hungary this trend generated HUF 54.7 million in savings in 2016 in wage and contribution costs in comparison to the costs of task performance by auditors. With its continuous monitoring and controlling system, the finance area also supports audits. It also supports the revision of the audit programme, especially in the area of financial and property management and during the development of the relevant performance audits.
- ✓ In 2016, savings from the further rationalisation of operational processes (HUF 7.9 million) were reinvested in investment projects, in particular, IT projects and equipment purchases aimed at the creation of an ergonomic work environment and supporting the task performance of auditors.

## 2.2. Sustainable development

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*In keeping with both Hungarian and international objectives, the enforcement, preservation and expansion of the requirements pertaining to the long-term, responsible management of resources are key priorities in the auditing and financial management activity of the SAO. The concept of sustainability was also incorporated into the SAO's Strategy, and the SAO is committed to working continuously on achieving this objective both in the present and in the future. The SAO's goal is to maintain the measures adopted in previous years and to continuously seek new possibilities to contribute to the preservation, protection and expansion of essential resources institution-wide.*



With the adoption of its Decision No. 18/2013 (III. 28.), the National Assembly launched the National Sustainable Development Framework Strategy. By maintaining and preserving human and natural resources, indirectly, the State Audit Office of Hungary contributes to the preservation of social and economic resources.

With a view to retaining, preserving and appreciating **human resources**, as the most important professional value, the State Audit Office of Hungary assigns priority to the creation of a healthy work environment, the health preservation of auditors and, in this context, implementing preventive measures and strengthen competencies.

In the interest of the protection of **natural resources** and bearing in mind long-term planning, the organisation implemented several measures related to energy conservation, economy, the reduction of environmental pollution and the protection of the environment, including greenroof maintenance, bicycle storage, preference for employees' public transportation, recycling, the replacement of equipment polluting the environment.

## 2.3. Implementation of an integrated accounting system

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*Legislative changes affecting public finance accounting and efforts to optimise the staff number of the Finance Directorate and reduce red tape facilitated the introduction of a new, integrated financial management system, which started its operation in 2015.*

The modular structure of the system, its diversified parameterisation and queries that enable the generation of statements capable of satisfying management information requirements all support the task performance of the State Audit Office of Hungary. The benefits of the system were perceived, for the first time, in 2016.

The implementation of the integrated system contributed to the clear separation of responsibilities and competences, the implementation of a more transparent documentation system, the elimination of redundancies and overlaps and the strengthening of process-integrated controls. The system covers the registration and data disclosure obligations prescribed by legislation for budgetary institutions.

The accounting programme changeover fundamentally supports controlled financial management. Uniformly controlled processes facilitate the improvement of economic and financial control.

## 2.4. Asset management and operation

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*The objective for 2016 was to harmonise the infrastructural conditions for existing IT systems and those to be newly introduced. In this context, the SAO commenced the enlargement of its pool of hardware equipment, licenses and software applications.*

### **Asset modernisation**

Aligned with the above, the SAO implemented numerous asset modernisation solutions and installed the hardware equipment (servers, routers) required for central operations. In the area of IT projects, we supported the task performance of auditors through the purchase of ergonomic work equipment. In net terms, we allocated HUF 107,864 thousand to the purchase and upgrade of software and HUF 99,258 thousand to the purchase of IT equipment.

### **Electronic data request system**

The SAO entered into a contract for the purchase of an electronic data request system, which is intended to improve the efficiency of audit work.

### **Renewal of the document management system**

For expediting and improving the efficiency of incoming and outgoing documents and the processing of internal cases, a new document management system was purchased and adapted to the SAO's processes, going live on 1 January 2017.

# ANNEXES

## ■ ANNEX I: DUTIES OF THE STATE AUDIT OFFICE OF HUNGARY

### Statutory duties of the State Audit Office of Hungary

Pursuant to Article 5(7) of Act LXVI of 2011 and to Section 90 of Act CXCV of 2011, the SAO annually audits the final accounts presenting the execution of the central budget. As early as the 2015 audit, the SAO's audit successfully covered 100% of the expenditures and revenues of the central subsystem thanks to the introduction of its new audit methodology. The SAO also achieved this coverage during the audit of the execution of the 2016 budget. Pursuant to Article 5(1) of Act LXVI of 2011, the SAO annually provides an opinion on the budget bill.

In consideration of the key role of the exercise of proprietary rights over state property, pursuant to Article 5(4)a) of Act LXVI of 2011, Article 3(4) of Act CVI of 2007 and Article 14(1) of Act LXXXVII of 2010, the SAO conducts annual audits in that regard.

Audit experiences found, among other things, that the enforcement of ownership rights at local governments and at business associations in local government ownership was poor in numerous cases. The majority of local governments fail to exercise adequate control over the operation of the companies and typically neglect inspecting task performance. In addition, they do not exercise ownership control over internal audits and over the use of funds provided for the task performance of the entities. The SAO has submitted a proposal on the comprehensive and conceptual renewal of this area. The proposal was also supported by the Government. In addition to the above, the State Audit Office has developed a self-test system, which is unique in the sense that it can help improving the regularity of even those local governments that have not been subject to the SAO's audit as yet.

Another annually audited area is the *distribution of revenues among the Municipality of Budapest and the Budapest district local governments*, which had been considered a pivotal issue even earlier (Article 6 (1) of Act CXXXIII of 2006). In this context, Resolution No. 41/2013 (V. 27.) OGY of the National Assembly – as detailed below – empowers the SAO to have its statutory duties reviewed, with the results considered by the National Assembly in its legislative work.

Pursuant to Article 10(1)–(3) of Act XXXIII of 1989, in the context of legality audits the State Audit Office of Hungary continues to audit, every two years, the regularity of the financial management of political parties receiving state budget subsidies regularly. In this regard, in 2003 the scope of audit responsibilities increased further based on the SAO's accumulated experiences: every two years, the SAO conducts legality audits on the financial management of foundations that are the recipients of state budget subsidies under the referenced Act at foundations engaged in scientific, knowledge dissemination, research and education activities.

In 2013, the statutory audit obligations of the SAO increased further: it focused its activities on the transparency of the campaign costs related to the election of the Members of Parliament (Section 8/B (1) and Section 9 (2) of Act LXXXVII of 2013) and on auditing the costs of election procedures. Based on legal regulations, the State Audit Office of Hungary is required to conduct such audits in each election period. This is because the financial resources for the costs of the preparations for and the execution of elections and for other costs associated with the activity of the electoral bodies must be granted from the central budget, up to the amount determined by the National Assembly. The State Audit Office of Hungary is required to inform the National Assembly of the use of these funds. The 2016 amendment to Act CXXXIX of 2013 on the National Bank of Hungary stipulates that the SAO is responsible for auditing the financial management of the foundations established by the MNB.

### Other tasks

The years 2014 and 2015 designated numerous additional tasks concerning the scope of responsibilities of the SAO.

Besides amending a number of additional sector-specific acts regulating the financial intermediary system, Act LXXXV of 2015 on the amendment of certain acts to promote the development of the system of financial intermediation modified several provisions of Act LXXV of 2007 on the Chamber of Hungarian Auditors, the Activities of Auditors and on the Public Oversight of Auditors, effective mainly as of 7 July 2015 and partly as of 1 September



2015 and 1 January 2018. Accordingly, as regards the organisations of the subsystems of public finances, from 1 September 2015 auditors' qualification for budget auditing is subject to the consent of the State Audit Office of Hungary (Act LXXV of 2007).

In addition, pursuant to the new public procurement act (Act CXLIII of 2015), the SAO is also entitled to initiate the ex officio procedure of the Public Procurement Arbitration Board, and the Public Procurement Arbitration Board is required to notify the SAO in case of any infringement detected by it. From 2015, the President of the State Audit Office is entitled to delegate a member to the 19-member Council operating within the framework of the Public Procurement Authority. The Public Procurement Authority is required to send a copy of its annual report for the National Assembly to the State Audit Office as well and the SAO, as part of its EU obligations, cooperates with the Authority in the monitoring of the application of public procurement rules.

The State Audit Office audits the financial management of the Compensation Fund – which is designed to protect policyholders and is governed by the Investor Protection Fund Directorate – specified in Act CCXIV of 2015 on certain damage compensation measures taken in order to strengthen the stability of the capital market (Quaestor Act) (pursuant to Section 130 of Act XXXVII of 2014, from 2014 the SAO also audits the Resolution Fund).

### NA resolutions

Economic developments, the SAO's well-defined but exponentially increasing scope of activity and the expansion of the tasks arising from changes in the economic environment pose continuous challenges to the SAO. The National Assembly defines special audits and needs for professional support where the SAO's work may create value added in improving, utilising and protecting public property.

In Section 4/h of Resolution No. 31/2015 (VII. 7.) OGY, the National Assembly requested the SAO to prepare an audit plan both for arranging the Olympics and for the expenditures to be incurred in case of hosting the event, and to provide professional support for those preparing the tender to ensure the lawful, professional, economical and efficient use of public funds.

The National Assembly acknowledged the work performed by the State Audit Office of Hungary under Section 2a) of Resolution No. 35/2009 (V. 12.) OGY of the National Assembly aimed at the detection of corruption risks, and its activities carried out for the promotion of an integrity-based organisational culture. As an extension of this endeavour, the National Assembly supported the view that, in respect of organisations involved in managing public funds and public property, the State Audit Office of Hungary should widen its consultancy activities regarding management systems and should support the training of ethical managers in public finance.

In Resolution No. 35/2009 (V. 12.) OGY, the National Assembly agreed that, in line with its strategic objectives, the SAO should audit the areas that pose corruption risks and implement its priority – already approved – project aimed at the identification of corruption risks (Integrity Project). It also declared that, in implementing the provisions of Resolution No. 43/2005 (V. 26.) OGY of the National Assembly, the SAO developed the Public Finance Quarterly into a high-quality professional journal, and requested the SAO to continue to pursue its advisory and opinion leader activities and the publication of the Public Finance Quarterly.

By its Resolution No. 41/2013 (V. 27.) OGY, the National Assembly supported the State Audit Office in participating in the Development Initiative (IDI) activities of the International Organisation of Supreme Audit Institutions (INTOSAI), and for the SAO to provide professional support to this initiative as donor, with special regard to Hungarian foreign trade strategy.

As a confirmation of the above, in its Resolution No. 41/2014 (XI. 13.), the National Assembly declares that it recognises and supports the role of the SAO in enhancing financial literacy.

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 ■ ANNEX II: REPORTS, ANALYSES AND STUDIES PREPARED BY THE SAO IN 2016 BY FOCUS AREA
 

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1. “Well-managed state” focus area**Reports**

- 15214 [Jelentés az Országos Tudományos Kutatási Alapprogramok ellenőrzéséről](#)
- 16006 [Jelentés a turizmusfejlesztési intézkedések ellenőrzéséről](#)
- 16007 [Utóellenőrzések - A Gazdasági Versenyhivatal működésének és gazdálkodásának utóellenőrzése](#)
- 16044 [Jelentés - Utóellenőrzések - a vasúti közlekedés állami támogatási rendszerének ellenőrzéséről készült jelentés javaslatai hasznosulásának utóellenőrzéséről](#)
- 16062 [Vélemény a 2017. évi költségvetésről - Vélemény Magyarország 2017. évi központi költségvetéséről szóló törvényjavaslatról](#)
- 16104 [Jelentés - az államháztartás központi alrendszerének adósságát kezelő rendszer ellenőrzéséről](#)
- 16105 [Jelentés - az államháztartás központi alrendszerének adóssága és éven túli kötelezettségvállalásának ellenőrzéséről készült jelentéshez kapcsolódó utóellenőrzésről](#)
- 16153 [Jelentés - Szén-dioxid kvóttákkal való gazdálkodás ellenőrzése](#)
- 16154 [Jelentés - Közös ellenőrzéssel a versenyképes tudás jobb hasznosulásáért- a diplomás pályakövetés jó gyakorlatainak feltárása](#)
- 16163 [Jelentés - Jelentés Magyarország 2015. évi központi költségvetése végrehajtásának ellenőrzéséről](#)
- 16089 [Jelentés - Utóellenőrzések- A Társadalombiztosítási Alapokból nyújtott ellátások és szolgáltatások jogosultsági rendjében alkalmazott nyilvántartási rendszerek működésének utóellenőrzéséről](#)

**Analyses, studies**

- T/401 [Pénzügyi kultúra fejlesztési programok felmérése, Kutatási jelentés](#)
- T/402 [Tanulmány az állam piacszervező tevékenysége számvevőszéki ellenőrzése szempontjainak és fókuszterületeinek meghatározásához](#)
- T/405 [Tanulmány a nagyberuházások integritási kockázatairól és az ezt kezelő kontrollok kialakításáról](#)
- T/409 [Szempontok a Költségvetési Tanács részére véleménye kialakításához a Magyarország 2017. évi központi költségvetéséről szóló törvényjavaslat zárószavazásához](#)
- T/410 [Elemzés a Költségvetési Tanács részére a 2016. I. félévi költségvetési folyamatokról](#)
- T/411 [Elemzés a katasztrófavédelem új rendszerének működéséről](#)
- T/412 [Elemzés a 2015. évi költségvetési folyamatok makrogazdasági összefüggéseiről, a zárszámadás ellenőrzése kapcsán](#)
- T/413 [Az államháztartás adósságkezelő rendszerének működése, az Államadósság Kezelő Központ Zrt. szerepe, teljesítménye](#)
- T/414 [Integritás felmérés: Közintézmények, 2016](#)

**Series of studies entitled “Building Blocks of Good Governance – The Supreme Audit Institution in Focus”:**

1. [A legfőbb ellenőrző intézmények hozzájárulása a jó kormányzáshoz](#)
2. [A jó kormányzás támogatásának fundamentumai](#)
3. [Az Állami Számvevőszék hozzájárulása a minőségi jogalkotáshoz](#)
4. [Az ellenőrzések és azok hasznosulása az ellenőrzöttek szintjén](#)
5. [A közpénzfelhasználás transzparenciája](#)
6. [Az integritás kultúrájának meghonosítása a magyar közsférában](#)
7. [A fenntartható költségvetés öre](#)
8. [A jó kormányzás támogatása a számvevőszéki ellenőrzések tervezési folyamatai során](#)
9. [Értékközlés és értékteremtés - Az Állami Számvevőszék szervezeti működésének megújítása](#)
10. [A kormányzás eredményességének támogatása](#)
11. [Az Állami Számvevőszék hozzájárulása az „államenedzsment” megújításához](#)

## 2. Auditing the auditors focus area

### Reports

- 16037 [Jelentés az adóbeszedési eljárások ellenőrzéséről - Egyes adóbeszedési tevékenységekkel kapcsolatos feladatellátás szabályszerűségének ellenőrzése](#)
- 16043 [Jelentés - A Magyar Államkincstár közigazgatási hatósági tevékenységének, valamint központosított illetmény-számfejtési rendszerének ellenőrzése](#)
- 16116 [Jelentés - A Magyar Nemzeti Bank 2014. évi működése szabályszerűségének ellenőrzéséről](#)
- 16117 [Jelentés - Utóellenőrzések – a Magyar Nemzeti Bank működése szabályszerűségének utóellenőrzéséről](#)
- 16164 [Jelentés - Köztisztviselők ellenőrzése – Magyar Könyvvizsgálói Kamara](#)

## 3. State property focus area

### Reports

- 16008 [Jelentés az állami tulajdonban \(résztulajdonban\) lévő gazdálkodó szervezetek vagyonmegőrzési és gazdálkodási tevékenységének ellenőrzéséről - Nemzeti Eszközkezelő Zrt.](#)
- 16009 [Utóellenőrzések – A Duna Menti Regionális Vízmű Zrt. vagyonérték megőrző és gyarapító tevékenységének utóellenőrzése](#)
- 16010 [Utóellenőrzések – A Dunántúli Regionális Vízmű Zrt. vagyonérték megőrző és gyarapító tevékenységének utóellenőrzése](#)
- 16011 [Utóellenőrzések – A Tiszamenti Regionális Vízmű Zrt. vagyonérték megőrző és gyarapító tevékenységének utóellenőrzése](#)
- 16012 [Utóellenőrzések – Az Északmagyarországi Regionális Vízmű Zrt. vagyonérték megőrző és gyarapító tevékenységének utóellenőrzése](#)
- 16013 [Utóellenőrzések – Az Északdunántúli Vízmű Zrt. vagyonérték megőrző és gyarapító tevékenységének utóellenőrzése](#)
- 16014 [Jelentés az állami tulajdonban \(résztulajdonban\) lévő gazdálkodó szervezetek vagyonmegőrzési és gazdálkodási tevékenységének ellenőrzéséről - FŐKEFE Közhasznú Nonprofit Kft.](#)
- 16016 [Jelentés az állami tulajdonban \(résztulajdonban\) lévő gazdálkodó szervezetek vagyonmegőrzési és gazdálkodási tevékenységének ellenőrzéséről - Új Nemzedék Központ Nonprofit Közhasznú Kft.](#)
- 16046 [Jelentés - Az állami tulajdonban \(résztulajdonban\) lévő gazdálkodó szervezetek vagyonmegőrzési és gazdálkodási tevékenységének ellenőrzése - Pro Rekreatio Közhasznú Nonprofit Kft.](#)
- 16063 [Jelentés - Az állami tulajdonban \(résztulajdonban\) lévő gazdálkodó szervezetek vagyonmegőrzési és gazdálkodási tevékenységének ellenőrzése – Magyar Nemzeti Filmalap Közhasznú Nonprofit Zrt.](#)
- 16092 [Jelentés- Az állami tulajdonban \(résztulajdonban\) lévő gazdálkodó szervezetek vagyonmegőrzési és gazdálkodási tevékenységének ellenőrzése – KINCSINFO Kincstári Informatikai NKft.](#)
- 16093 [Jelentés - Az állami tulajdonban \(résztulajdonban\) lévő gazdálkodó szervezetek vagyonmegőrzési és gazdálkodási tevékenységének ellenőrzése - Kiving Kft.](#)
- 16094 [Jelentés - Az állami tulajdonban \(résztulajdonban\) lévő gazdálkodó szervezetek vagyonmegőrzési és gazdálkodási tevékenységének ellenőrzése - Nitrokémia Környezetvédelmi Tanácsadó és Szolgáltató Zrt.](#)

- 16100 [Jelentés - Az állami tulajdonban \(résztulajdonban\) lévő gazdálkodó szervezetek vagyonmegőrzési és gazdálkodási tevékenységének ellenőrzése - Bay Zoltán Közhasznú Nonprofit Kft.](#)
- 16101 [Jelentés - Az állami tulajdonban \(résztulajdonban\) lévő gazdálkodó szervezetek vagyonmegőrzési és gazdálkodási tevékenységének ellenőrzése - ERFO Közhasznú Nonprofit Kft.](#)
- 16118 [Jelentés - Az állami tulajdonban \(résztulajdonban\) lévő gazdálkodó szervezetek vagyonmegőrzési és gazdálkodási tevékenységének ellenőrzése - NKÖV Nonprofit Kft.](#)
- 16122 [Jelentés - Az állami tulajdonban \(résztulajdonban\) lévő gazdálkodó szervezetek vagyonmegőrzési és gazdálkodási tevékenységének ellenőrzése - Monostori Erőd NKft.](#)
- 16123 [Jelentés - Az állami tulajdonban \(résztulajdonban\) lévő gazdálkodó szervezetek vagyonmegőrzési és gazdálkodási tevékenységének ellenőrzése - Széchenyi Programiroda NKft.](#)
- 16126 [Jelentés - Utóellenőrzések – Az állami vagyon feletti tulajdonosi joggyakorlással kapcsolatos tevékenységek utóellenőrzéséről](#)
- 16128 [Jelentés - Az állami tulajdonban \(résztulajdonban\) lévő gazdálkodó szervezetek vagyonmegőrzési és gazdálkodási tevékenységének ellenőrzése - Országos Foglalkoztatási Közhasznú Nonprofit Kft.](#)
- 16132 [Jelentés - Az állami tulajdonban \(résztulajdonban\) lévő gazdálkodó szervezetek vagyonmegőrzési és gazdálkodási tevékenységének ellenőrzése - Educatio Társadalmi Szolgáltató Nonprofit Kft.](#)
- 16137 [Jelentés - Az állami tulajdonban \(résztulajdonban\) lévő gazdálkodó szervezetek vagyonmegőrzési és gazdálkodási tevékenységének ellenőrzése - Hortobágyi Természetvédelmi és Génmegőrző Nonprofit Kft.](#)
- 16142 [Jelentés - Az állami tulajdonban \(résztulajdonban\) lévő gazdálkodó szervezetek vagyonmegőrzési és gazdálkodási tevékenységének ellenőrzése - Zsigmondy Vilmos Harkányi Gyógyfürdőkörház Nonprofit Kft.](#)
- 16145 [Jelentés - Az állami tulajdonban \(résztulajdonban\) lévő gazdálkodó szervezetek vagyonmegőrzési és gazdálkodási tevékenységének ellenőrzése - Fogyatékos Személyek Esélyegyenlőségéért Közhasznú Nonprofit Kft.](#)
- 16162 [Jelentés - Duna Palota Kulturális Kiemelkedően Közhasznú Nonprofit Kft. – Az állami tulajdonban \(résztulajdonban\) lévő gazdálkodó szervezetek vagyonmegőrzési és gazdálkodási tevékenységének ellenőrzése](#)
- 16168 [Jelentés - Az állami tulajdonban \(résztulajdonban\) lévő gazdálkodó szervezetek vagyonmegőrzési és gazdálkodási tevékenységének ellenőrzése - Magyar Légimentő Nonprofit Kft.](#)
- 16169 [Jelentés - Az állami tulajdonban \(résztulajdonban\) lévő gazdálkodó szervezetek vagyonmegőrzési és gazdálkodási tevékenységének ellenőrzése - Belügyminisztérium HEROS Javító, Gyártó, Szolgáltató és Kereskedelmi Zrt.](#)
- 16176 [Jelentés - Az állami tulajdonban \(résztulajdonban\) lévő gazdálkodó szervezetek vagyonmegőrzési és gazdálkodási tevékenységének ellenőrzése – Bihari Szociális Szolgáltató Nonprofit Kft.](#)
- 16177 [Jelentés - Az állami tulajdonban \(résztulajdonban\) lévő gazdálkodó szervezetek vagyonmegőrzési és gazdálkodási tevékenységének ellenőrzése – Hajdúsági Szociális Szolgáltató Nonprofit Kft.](#)
- 16185 [Jelentés - Az állami tulajdonban \(résztulajdonban\) lévő gazdálkodó szervezetek vagyonmegőrzési és gazdálkodási tevékenységének ellenőrzése – ELI-HU Kutatási és Fejlesztési Nonprofit Kft.](#)
- 16191 [Jelentés - Az állami tulajdonban \(résztulajdonban\) lévő gazdálkodó szervezetek vagyonmegőrzési és gazdálkodási tevékenységének ellenőrzése - Állami Vagyonnyilvántartási Kft.](#)

## Analyses, studies

T/407 [Elemzés a többségi állami tulajdonú gazdasági társaságok körében végzett integritás felmérés eredményeiről](#)

## 4. “Central sector” focus area

## Reports

- 16002 [Jelentés a központi alrendszer egyes intézményei pénzügyi és vagyongazdálkodásának ellenőrzéséről - Zala Megyei Kórház](#)
- 16003 [Jelentés a központi alrendszer egyes intézményei pénzügyi és vagyongazdálkodásának ellenőrzéséről - Péterfy Sándor Utcai Kórház-Rendelőintézet és Baleseti Központ](#)
- 16004 [Jelentés a központi alrendszer egyes intézményei pénzügyi és vagyongazdálkodásának ellenőrzéséről - Jahn Ferenc Dél-pesti Kórház és Rendelőintézet](#)
- 16005 [Jelentés a központi alrendszer egyes intézményei pénzügyi és vagyongazdálkodásának ellenőrzéséről - Szent János Kórház és Észak-budai Egyesített Kórházak](#)
- 16032 [Jelentés - A Nemzeti Rehabilitációs és Szociális Hivatal pénzügyi és vagyongazdálkodásának ellenőrzéséről](#)
- 16045 [Jelentés - A Nemzeti Fogyasztóvédelmi Hatóság ellenőrzéséről készült jelentés javaslatai hasznosulásának utóellenőrzéséről](#)
- 16049 [Jelentés - A központi alrendszer egyes intézményei pénzügyi és vagyongazdálkodásának ellenőrzéséről – Kátai Gábor Kórház](#)
- 16050 [Jelentés - A központi alrendszer egyes intézményei pénzügyi és vagyongazdálkodásának ellenőrzése – Borsod-Abaúj-Zemplén Megyei Kórház és Egyetemi Oktató Kórház](#)
- 16051 [Jelentés - A központi alrendszer egyes intézményei pénzügyi és vagyongazdálkodásának ellenőrzése – Bács-Kiskun Megyei Kórház a Szegedi Tudományegyetem Általános Orvostudományi Kar Oktató Kórháza](#)
- 16064 [Jelentés - A központi alrendszer egyes intézményei pénzügyi és vagyongazdálkodásának ellenőrzése - Alkotmánybíróság](#)
- 16065 [Jelentés - A központi alrendszer egyes intézményei pénzügyi és vagyongazdálkodásának ellenőrzése - Központi Statisztikai Hivatal](#)
- 16066 [Jelentés - A központi alrendszer egyes intézményei pénzügyi és vagyongazdálkodásának ellenőrzése - Nyugat-dunántúli Vízügyi Igazgatóság](#)
- 16067 [Jelentés - A központi alrendszer egyes intézményei pénzügyi és vagyongazdálkodásának ellenőrzése – Nemzeti Közlekedési Hatóság](#)
- 16068 [Jelentés - A központi alrendszer egyes intézményei pénzügyi és vagyongazdálkodásának ellenőrzése – Csongrád Megyei Egészségügyi Ellátó Központ](#)
- 16069 [Jelentés - A központi alrendszer egyes intézményei pénzügyi és vagyongazdálkodásának ellenőrzése - Észak-dunántúli Vízügyi Igazgatóság](#)
- 16070 [Jelentés a Szellemi Tulajdon Nemzeti Hivatala pénzügyi és vagyongazdálkodásának, a HIPAvilon Nkft-vel fennálló szerződéses kapcsolatai szabályszerűségének és a közös jogkezelő szervezetekkel kapcsolatos feladatellátásának ellenőrzéséről](#)
- 16071 [Jelentés - A központi alrendszer egyes intézményei pénzügyi és vagyongazdálkodásának ellenőrzése - Alsó-Tisza-vidéki Vízügyi Igazgatóság](#)
- 16072 [Jelentés - A központi alrendszer egyes intézményei pénzügyi és vagyongazdálkodásának ellenőrzése - Felső-Tisza-vidéki Vízügyi Igazgatóság](#)
- 16073 [Jelentés - A központi alrendszer egyes intézményei pénzügyi és vagyongazdálkodásának ellenőrzése - Közép-Tisza-vidéki Vízügyi Igazgatóság](#)
- 16078 [Jelentés - A központi alrendszer egyes intézményei pénzügyi és vagyongazdálkodásának ellenőrzése – Nemzeti Adó- és Vámhivatal Képzési, Egészségügyi és Kulturális Intézete](#)
- 16079 [Jelentés - A központi alrendszer egyes intézményei pénzügyi és vagyongazdálkodásának ellenőrzése - Észak-magyarországi Vízügyi Igazgatóság](#)
- 16106 [Jelentés - A központi alrendszer egyes intézményei pénzügyi és vagyongazdálkodásának ellenőrzése – Szent Lázár Megyei Kórház, Salgótarján](#)
- 16107 [Jelentés - Köztisztviselők ellenőrzése – Magyar Szabványügyi Testület](#)
- 16127 [Jelentés - Utóellenőrzések – A kórházi ellátás működtetésére fordított pénzeszközök felhasználásának ellenőrzéséről szóló jelentés utóellenőrzése](#)
- 16133 [Jelentés - A központi alrendszer egyes intézményei pénzügyi és vagyongazdálkodásának ellenőrzése – Dr. Piróth Endre Szociális Központ](#)
- 16134 [Jelentés - A központi alrendszer egyes intézményei pénzügyi és vagyongazdálkodásának ellenőrzése – Szabolcs-Szatmár-Bereg Megyei Gyermekvédelmi Központ Tiszadob](#)
- 16135 [Jelentés - A központi alrendszer egyes intézményei pénzügyi és vagyongazdálkodásának ellenőrzése – Zala Megyei Szocioterápiás Intézmény](#)
- 16140 [Jelentés - A központi alrendszer egyes intézményei pénzügyi és vagyongazdálkodásának ellenőrzése - Tüdő-](#)

- [gyógyintézet Törökbálint](#)
- 16157 [Jelentés - A humánszolgáltatást nyújtó államháztartáson kívüli szociális és köznevelési intézmények, szolgáltatók fenntartói központi költségvetésből kapott támogatásai felhasználásának ellenőrzése – Humán-Pszicho 2002 Oktató és Szolgáltató Nonprofit Kft.](#)
- 16158 [Jelentés - A humánszolgáltatást nyújtó államháztartáson kívüli szociális és köznevelési intézmények, szolgáltatók fenntartói központi költségvetésből kapott támogatásai felhasználásának ellenőrzése – A Art Stúdió Iskolafenntartó Közhasznú Nonprofit Kft.](#)
- 16165 [Jelentés - A központi alrendszer egyes intézményei pénzügyi és vagyongazdálkodásának ellenőrzése - Viktor Speciális Otthon](#)
- 16178 [Jelentés - Az állami felsőoktatási intézmények gazdálkodásának, működésének ellenőrzéséről készült jelentések utóellenőrzése – Eötvös Loránd Tudományegyetem](#)
- 16179 [Jelentés - Az állami felsőoktatási intézmények gazdálkodásának, működésének ellenőrzéséről készült jelentések utóellenőrzése – Pécsi Tudományegyetem](#)
- 16235 [Jelentés - Az állami felsőoktatási intézmények gazdálkodásának, működésének ellenőrzéséről készült jelentések utóellenőrzése – Szent István Egyetem](#)
- 16236 [Jelentés - Az állami felsőoktatási intézmények gazdálkodásának, működésének ellenőrzéséről készült jelentések utóellenőrzése – Budapesti Corvinus Egyetem](#)
- 16031 [Jelentés - Az időközi választásokra fordított pénzeszközök felhasználásának ellenőrzéséről](#)
- 16081 [Jelentés - Pártok gazdálkodása - A költségvetési támogatásban részesülő Párbeszéd Magyarországért Párt 2013-2014. évi gazdálkodása törvényességének ellenőrzéséről](#)
- 16082 [Jelentés - Pártok gazdálkodása - A költségvetési támogatásban részesülő Magyar Liberális Párt 2013-2014. évi gazdálkodása törvényességének ellenőrzéséről](#)
- 16119 [Jelentés - A költségvetési támogatásban részesülő pártalapítványok 2013-2014. évi gazdálkodása törvényességének ellenőrzése az Ökopolisz Alapítványnál](#)
- 16120 [Jelentés - Pártok gazdálkodása - A költségvetési támogatásban részesülő pártok 2013-2014. évi gazdálkodása törvényességének ellenőrzése a Demokratikus Koalíciónál](#)
- 16121 [Jelentés - Pártok gazdálkodása - A költségvetési támogatásban részesülő pártok 2013-2014. évi gazdálkodása törvényességének ellenőrzése az Együtt - a Korszakváltók Pártjánál](#)
- 16138 [Jelentés - A költségvetési támogatásban részesülő pártalapítványok 2013-2014. évi gazdálkodása törvényességének ellenőrzése a Gyarapodó Magyarországért Alapítványnál](#)
- 16139 [Jelentés - A költségvetési támogatásban részesülő pártok 2013-2014. évi gazdálkodása törvényességének ellenőrzése a Jobbik Magyarországért Mozgalomnál](#)
- 16141 [Jelentés - Pártalapítványok gazdálkodása - A költségvetési támogatásban részesülő pártalapítványok 2013-2014. évi gazdálkodása törvényességének ellenőrzése a Táncsics Mihály Alapítványnál](#)
- 16152 [Jelentés - A költségvetési támogatásban részesülő pártok 2013-2014. évi gazdálkodása törvényességének ellenőrzése a Lehet Más a Politika Pártnál](#)

## Analyses, studies

- T/394 [Elemzés a 2015. évi integritás felmérés felsőoktatás intézménycsoportban mért eredményeiről](#)
- T/395 [Elemzés a 2015. évi integritás felmérés Általános és középiskolák intézménycsoportban mért eredményeiről](#)
- T/396 [Elemzés a 2015. évi integritás felmérés tudományos kutatás, fejlesztés intézménycsoportban mért eredményeiről](#)
- T/397 [Elemzés a 2015. évi integritás felmérés rend- és honvédelem intézménycsoportban mért eredményeiről](#)
- T/398 [Elemzés a 2015. évi integritás felmérés független államhatalmi szervek intézménycsoportban mért eredményeiről](#)
- T/399 [Elemzés a 2015. évi integritás felmérés területi igazgatási szervek intézménycsoportban mért eredményeiről](#)
- T/404 [Elemzés a 2015. évi integritás felmérés kormányzati szervek intézménycsoportban mért eredményeiről](#)

## 5. “Local government sector” focus area

### Reports

- 15216 [Jelentés a Fővárosi Önkormányzatot és a kerületi önkormányzatokat osztottan megillető bevételek 2015. évi megosztásáról szóló önkormányzati rendelet felülvizsgálatáról](#)
- 16001 [Jelentés az önkormányzatok pénzügyi és vagyongazdálkodása szabályszerűségének ellenőrzéséről Kiskunhalas](#)
- 16015 [Utóellenőrzések - Az önkormányzatok vagyongazdálkodása szabályszerűségének ellenőrzéséről szóló jelentések utóellenőrzése – Makó Város Önkormányzata](#)
- 16017 [Jelentés az önkormányzatok többségi tulajdonában lévő gazdasági társaságok közfeladat ellátását érintő gazdálkodási tevékenysége szabályszerűségének ellenőrzéséről – Kecskeméti Termostar Hőszolgáltató Kft.](#)
- 16018 [Jelentés az önkormányzatok többségi tulajdonában lévő gazdasági társaságok közfeladat ellátását érintő gazdálkodási tevékenysége szabályszerűségének ellenőrzéséről – Baja Energetika Kft.](#)
- 16019 [Utóellenőrzések - A DKV Debreceni Közlekedési Zrt. közfeladat ellátásának ellenőrzéséről készült jelentés javaslatai hasznosulásának utóellenőrzése](#)
- 16020 [Utóellenőrzések - A Miskolc Városi Közlekedési Zrt. közfeladat ellátásának ellenőrzéséről készült jelentés javaslatai hasznosulásának utóellenőrzése](#)
- 16021 [Utóellenőrzések - A Szegedi Közlekedési Kft. közfeladat ellátásának ellenőrzéséről készült jelentés javaslatai hasznosulásának utóellenőrzése](#)
- 16022 [Jelentés az önkormányzatok pénzügyi és vagyongazdálkodása megfelelőségének ellenőrzéséről – Gödöllő](#)
- 16023 [Jelentés az önkormányzatok pénzügyi és vagyongazdálkodása megfelelőségének ellenőrzéséről – Velence](#)
- 16024 [Jelentés az önkormányzatok pénzügyi és vagyongazdálkodása megfelelőségének ellenőrzéséről – Szentes](#)
- 16025 [Utóellenőrzések - Balatonboglár Városi Önkormányzat - vagyongazdálkodás szabályszerűségének utóellenőrzése](#)
- 16026 [Utóellenőrzések - Ráckeve Város Önkormányzata - vagyongazdálkodás szabályszerűségének utóellenőrzése](#)
- 16027 [Jelentés a fővárosi közösségi közlekedés ellenőrzéséről – A fővárosi közösségi közlekedés intézményi átalakításának, a Budapesti Közlekedési Központ \(BKK Zrt.\) létrehozásának, működése szabályszerűségének ellenőrzése](#)
- 16028 [Jelentés - Az önkormányzatok többségi tulajdonában lévő gazdasági társaságok közfeladat ellátását érintő gazdálkodási tevékenysége szabályszerűségi ellenőrzése - Mátészalkai Távhőszolgáltató Kft. 2016.](#)
- 16029 [Jelentés - Az önkormányzatok többségi tulajdonában lévő gazdasági társaságok közfeladat ellátását érintő gazdálkodási tevékenysége szabályszerűségének ellenőrzése - Ózdi Távhőtermelő és Szolgáltató Kft.](#)
- 16030 [Jelentés - Az önkormányzatok többségi tulajdonában lévő gazdasági társaságok közfeladat ellátását érintő gazdálkodási tevékenysége szabályszerűségének ellenőrzése - Salgó Vagyon Salgótarjáni Önkormányzati Vagyonkezelő és Távhőszolgáltató Kft.](#)
- 16033 [Jelentés - Az önkormányzatok többségi tulajdonában lévő gazdasági társaságok közfeladat ellátását érintő gazdálkodási tevékenysége szabályszerűségi ellenőrzése - Sárvár Távhő Hőtermelő és Szolgáltató Kft.](#)
- 16034 [Jelentés - Az önkormányzatok többségi tulajdonában lévő gazdasági társaságok közfeladat ellátását érintő gazdálkodási tevékenysége szabályszerűségi ellenőrzése - Kapuvári Hőszolgáltató Kft.](#)
- 16035 [Jelentés - Az önkormányzatok többségi tulajdonában lévő gazdasági társaságok közfeladat ellátását érintő gazdálkodási tevékenysége szabályszerűségi ellenőrzése - Makói Kommunális Nonprofit Kft.](#)
- 16036 [Utóellenőrzések - A BKV Zrt. gazdálkodásának ellenőrzéséről szóló jelentés utóellenőrzése](#)
- 16038 [Jelentés - Az önkormányzatok pénzügyi és vagyongazdálkodása szabályszerűségének ellenőrzéséről – Szerencs](#)
- 16039 [Utóellenőrzések - Piliscsaba Város Önkormányzata - vagyongazdálkodás szabályszerűségének utóellenőrzése](#)
- 16040 [Utóellenőrzések - Zalaötvő Város Önkormányzata - vagyongazdálkodás szabályszerűségének utóellenőrzése](#)
- 16041 [Utóellenőrzések - Kecskéd Község Önkormányzata - vagyongazdálkodás szabályszerűségének utóellenőrzése](#)
- 16042 [Utóellenőrzések - Mátraverebély Község Önkormányzata - vagyongazdálkodás szabályszerűségének utóellenőrzése](#)
- 16047 [Jelentés - Az önkormányzatok pénzügyi és vagyongazdálkodása megfelelőségének ellenőrzése – Harkány](#)
- 16048 [Jelentés - Az önkormányzatok pénzügyi és vagyongazdálkodása megfelelőségének ellenőrzése – Sellye](#)
- 16052 [Jelentés - A helyi nemzetiségi önkormányzatok gazdálkodása szabályszerűségének ellenőrzése – Horvát Nemzetiségi Önkormányzat Sellye](#)
- 16053 [Jelentés - A helyi nemzetiségi önkormányzatok gazdálkodása szabályszerűségének ellenőrzése – Sellye Roma Nemzetiségi Önkormányzat](#)
- 16054 [Jelentés - A helyi nemzetiségi önkormányzatok gazdálkodása szabályszerűségének ellenőrzése – Gödöllői Lengyel Nemzetiségi Önkormányzat](#)
- 16055 [Jelentés - A helyi nemzetiségi önkormányzatok gazdálkodása szabályszerűségének ellenőrzése – Gödöllői Német Nemzetiségi Önkormányzat](#)

- 16056 [Jelentés - A helyi nemzetiségi önkormányzatok gazdálkodása szabályszerűségének ellenőrzése – Gödöllői Roma Nemzetiségi Önkormányzat](#)
- 16057 [Jelentés - Utóellenőrzések – az önkormányzatok vagyongazdálkodása szabályszerűségének ellenőrzéséről szóló jelentések utóellenőrzéséről – Bugac Nagyközségi Önkormányzat](#)
- 16058 [Jelentés - Az önkormányzatok többségi tulajdonában lévő gazdasági társaságok közfeladat ellátását érintő gazdálkodási tevékenysége szabályszerűségének ellenőrzése – Komáromi Távhőszolgáltató Kft.](#)
- 16059 [Jelentés - Az önkormányzatok többségi tulajdonában lévő gazdasági társaságok közfeladat ellátását érintő gazdálkodási tevékenysége szabályszerűségének ellenőrzése – Móri Hőtermelő- és Szolgáltató Kft.](#)
- 16060 [Jelentés - Az önkormányzatok többségi tulajdonában lévő gazdasági társaságok közfeladat ellátását érintő gazdálkodási tevékenysége szabályszerűségének ellenőrzése – Városüzemeltető és Fenntartó Kft. \(Mosonmagyaróvár\)](#)
- 16061 [Jelentés - Az önkormányzatok többségi tulajdonában lévő gazdasági társaságok közfeladat ellátását érintő gazdálkodási tevékenysége szabályszerűségének ellenőrzése – EVAT Egri Vagyonkezelő és Távfűtő Zrt.](#)
- 16074 [Jelentés - Az önkormányzatok pénzügyi és vagyongazdálkodása megfelelőségének ellenőrzése - Bugac](#)
- 16075 [Jelentés - A helyi nemzetiségi önkormányzatok gazdálkodása szabályszerűségének ellenőrzése – Szentesi Roma Nemzetiségi Önkormányzat](#)
- 16076 [Jelentés - A helyi nemzetiségi önkormányzatok gazdálkodása szabályszerűségének ellenőrzése – Harkányi Horvát Nemzetiségi Önkormányzat](#)
- 16077 [Jelentés - A helyi nemzetiségi önkormányzatok gazdálkodása szabályszerűségének ellenőrzése – Harkányi Német Nemzetiségi Önkormányzat](#)
- 16080 [Jelentés - Az önkormányzatok többségi tulajdonában lévő gazdasági társaságok közfeladat ellátását érintő gazdálkodási tevékenysége szabályszerűségének ellenőrzése – Szent Kristóf Szakrendelő Újbudai Egészségügyi Szolgáltató Közhasznú NKft.](#)
- 16083 [Jelentés - Utóellenőrzések - Tar Község Önkormányzata belső kontrollrendszere kialakításának, egyes kontrolltevékenységek és a belső ellenőrzés működésének utóellenőrzése](#)
- 16084 [Jelentés - Utóellenőrzések - Kisapostag Község Önkormányzata belső kontrollrendszere kialakításának, egyes kontrolltevékenységek és a belső ellenőrzés működésének utóellenőrzése](#)
- 16085 [Jelentés - Utóellenőrzések - Csabdi Község Önkormányzat belső kontrollrendszere kialakításának, egyes kontrolltevékenységek és a belső ellenőrzés működésének utóellenőrzése](#)
- 16086 [Jelentés - Utóellenőrzések - Szirák Község Önkormányzata belső kontrollrendszere kialakításának, egyes kontrolltevékenységek és a belső ellenőrzés működésének utóellenőrzése](#)
- 16087 [Jelentés - Utóellenőrzések - Villány Város Önkormányzata belső kontrollrendszere kialakításának, egyes kontrolltevékenységek és a belső ellenőrzés működésének utóellenőrzése](#)
- 16088 [Jelentés - Utóellenőrzések – Mágocs Város Önkormányzata vagyongazdálkodása szabályszerűségének utóellenőrzése](#)
- 16090 [Jelentés - Utóellenőrzések - Jánosháza Város Önkormányzata belső kontrollrendszere kialakításának, egyes kontrolltevékenységek és a belső ellenőrzés működésének utóellenőrzése](#)
- 16091 [Jelentés - Utóellenőrzések - Murakeresztúr Község Önkormányzata belső kontrollrendszere kialakításának, egyes kontrolltevékenységek és a belső ellenőrzés működésének utóellenőrzése](#)
- 16095 [Jelentés - Utóellenőrzések - Beremend Nagyközség Önkormányzata belső kontrollrendszere kialakításának, egyes kontrolltevékenységek és a belső ellenőrzés működésének utóellenőrzése](#)
- 16096 [Jelentés - Utóellenőrzések - Ősi Község Önkormányzata belső kontrollrendszere kialakításának, egyes kontrolltevékenységek és a belső ellenőrzés működésének utóellenőrzése](#)
- 16097 [Jelentés - Utóellenőrzések - Somogyesztei Község Önkormányzata belső kontrollrendszere kialakításának, egyes kontrolltevékenységek és a belső ellenőrzés működésének utóellenőrzése](#)
- 16098 [Jelentés - Utóellenőrzések - Szakály Község Önkormányzata belső kontrollrendszere kialakításának, egyes kontrolltevékenységek és a belső ellenőrzés működésének utóellenőrzése](#)
- 16099 [Jelentés - Utóellenőrzések - Kétegyháza Nagyközség Önkormányzata belső kontrollrendszere kialakításának, egyes kontrolltevékenységek és a belső ellenőrzés működésének utóellenőrzése](#)
- 16102 [Jelentés - Az önkormányzatok többségi tulajdonában lévő gazdasági társaságok közfeladat ellátását érintő gazdálkodási tevékenysége szabályszerűségének ellenőrzése – Gotthárd-Therm Fürdő és Idegenforgalmi Szolgáltató Korlátolt Felelősségű Társaság](#)
- 16103 [Jelentés - Az önkormányzatok többségi tulajdonában lévő gazdasági társaságok közfeladat ellátását érintő gazdálkodási tevékenysége szabályszerűségének ellenőrzése – Szent Margit Rendelőintézet Nonprofit Kft.](#)
- 16108 [Jelentés - Az önkormányzatok pénzügyi és vagyongazdálkodása megfelelőségének ellenőrzéséről – Makó](#)
- 16109 [Jelentés - A helyi nemzetiségi önkormányzatok gazdálkodása szabályszerűségének ellenőrzése - Makói Roma Nemzetiségi Önkormányzat](#)



- 16110 [Jelentés - A helyi nemzetiségi önkormányzatok gazdálkodása szabályszerűségének ellenőrzése - Makói Román Nemzetiségi Önkormányzat](#)
- 16111 [Jelentés - Az önkormányzatok többségi tulajdonában lévő gazdasági társaságok közfeladat ellátását érintő gazdálkodási tevékenysége szabályszerűségének ellenőrzése - Dunakeszi Közülemi Nonprofit Kft.](#)
- 16112 [Jelentés - Az önkormányzatok többségi tulajdonában lévő gazdasági társaságok közfeladat ellátását érintő gazdálkodási tevékenysége szabályszerűségének ellenőrzése - Keszthelyi HUSZ Hulladékszállító Egyszemélyes Nonprofit Kft.](#)
- 16113 [Jelentés - Az önkormányzatok többségi tulajdonában lévő gazdasági társaságok közfeladat ellátását érintő gazdálkodási tevékenysége szabályszerűségi ellenőrzése – DEPÓNIA Hulladékkezelő és Településtudományi Nonprofit Kft.](#)
- 16114 [Jelentés - Az önkormányzatok többségi tulajdonában lévő gazdasági társaságok közfeladat ellátását érintő gazdálkodási tevékenysége szabályszerűségének ellenőrzése - VGÜ Salgótarjáni Hulladékgazdálkodási és Városüzemeltetési Nonprofit Kft.](#)
- 16115 [Jelentés - Az önkormányzatok többségi tulajdonában lévő gazdasági társaságok közfeladat ellátását érintő gazdálkodási tevékenysége szabályszerűségének ellenőrzése - Esztergomi Köztisztasági Szolgáltató Kft.](#)
- 16124 [Jelentés - Az önkormányzatok többségi tulajdonában lévő gazdasági társaságok közfeladat ellátását érintő gazdálkodási tevékenysége szabályszerűségének ellenőrzése – ARIES Ipari, Kereskedelmi és Szolgáltató Nonprofit Kft. \(Szigetszentmiklós\)](#)
- 16125 [Jelentés - Az önkormányzatok többségi tulajdonában lévő gazdasági társaságok közfeladat ellátását érintő gazdálkodási tevékenysége szabályszerűségének ellenőrzése - Vecsési Városgondnok Nonprofit Kft.](#)
- 16129 [Jelentés - Az önkormányzatok többségi tulajdonában lévő gazdasági társaságok közfeladat ellátását érintő gazdálkodási tevékenysége szabályszerűségének ellenőrzése – Lenti Hulladékkezelő Kft.](#)
- 16130 [Jelentés - Az önkormányzatok többségi tulajdonában lévő gazdasági társaságok közfeladat ellátását érintő gazdálkodási tevékenysége szabályszerűségének ellenőrzése – Nagykunsági Környezetvédelmi, Területfejlesztési és Szolgáltató Kft. \(Karcag\)](#)
- 16131 [Jelentés - Az önkormányzatok többségi tulajdonában lévő gazdasági társaságok közfeladat ellátását érintő gazdálkodási tevékenysége szabályszerűségének ellenőrzése – ZALA-DEPO Hulladékgazdálkodási és Környezetvédelmi Kft.](#)
- 16136 [Jelentés - Az önkormányzatok többségi tulajdonában lévő gazdasági társaságok közfeladat ellátását érintő gazdálkodási tevékenysége szabályszerűségének ellenőrzése – BFTK Budapesti Fesztivál- és Turisztikai Központ NKft.](#)
- 16143 [Jelentés - Az önkormányzatok pénzügyi és vagyongazdálkodása megfelelőségének ellenőrzése - Rétság](#)
- 16144 [Jelentés - Az önkormányzatok többségi tulajdonában lévő gazdasági társaságok közfeladat ellátását érintő gazdálkodási tevékenysége szabályszerűségének ellenőrzése – Hírös Agóra Kulturális és Ifjúsági Központ Nonprofit Kft.](#)
- 16146 [Jelentés - Az önkormányzatok többségi tulajdonában lévő gazdasági társaságok közfeladat ellátását érintő gazdálkodási tevékenysége szabályszerűségének ellenőrzése – Kőszegi Városüzemeltető és Kommunális Szolgáltató Nonprofit Kft.](#)
- 16147 [Jelentés - Az önkormányzatok többségi tulajdonában lévő gazdasági társaságok közfeladat ellátását érintő gazdálkodási tevékenysége szabályszerűségének ellenőrzése – Gyomaközszolgom Kommunális Közszolgáltató Nonprofit Kft.](#)
- 16148 [Jelentés - Az önkormányzatok gazdasági társaságai Az önkormányzatok többségi tulajdonában lévő gazdasági társaságok közfeladat ellátását érintő gazdálkodási tevékenysége szabályszerűségének ellenőrzése – NHSZ Dabas Hulladékgazdálkodási Kft.](#)
- 16149 [Jelentés - Az önkormányzatok gazdasági társaságai Az önkormányzatok többségi tulajdonában lévő gazdasági társaságok közfeladat ellátását érintő gazdálkodási tevékenysége szabályszerűségének ellenőrzése – Maros Építőipari és Kommunális Nonprofit Kft.](#)
- 16150 [Jelentés - Az önkormányzatok gazdasági társaságai Az önkormányzatok többségi tulajdonában lévő gazdasági társaságok közfeladat ellátását érintő gazdálkodási tevékenysége szabályszerűségének ellenőrzése - Törökszentmiklósi Kommunális Szolgáltató Nonprofit Kft.](#)
- 16151 [Jelentés - Az önkormányzatok gazdasági társaságai Az önkormányzatok többségi tulajdonában lévő gazdasági társaságok közfeladat ellátását érintő gazdálkodási tevékenysége szabályszerűségének ellenőrzése - Hajdúszoboszlói Városgazdálkodási Nonprofit Zrt.](#)
- 16155 [Jelentés - Utóellenőrzések Fábiansebestyén Községi Önkormányzat belső kontrollrendszerének kialakítása, valamint egyes kontrolltevékenységek és a belső ellenőrzés működésének utóellenőrzése](#)
- 16156 [Jelentés - Utóellenőrzések Érsekudvar Községi Önkormányzata belső kontrollrendszerének kialakítása, valamint egyes kontrolltevékenységek és a belső ellenőrzés működésének utóellenőrzése](#)

- 16159 [Jelentés - Kőröshegy Község Önkormányzata belső kontrollrendszere kialakításának, egyes kontrolltevékenységek és a belső ellenőrzés működésének utóellenőrzése](#)
- 16160 [Jelentés - Hajdúbagos Község Önkormányzata belső kontrollrendszere kialakításának, egyes kontrolltevékenységek és a belső ellenőrzés működésének utóellenőrzése](#)
- 16161 [Jelentés - Az önkormányzatok gazdasági társaságai - Az önkormányzatok többségi tulajdonában lévő gazdasági társaságok gazdálkodásának ellenőrzése – DVG Dunaújvárosi Vagyonkezelő Zrt.](#)
- 16166 [Jelentés - A helyi nemzetiségi önkormányzatok gazdálkodása szabályszerűségének ellenőrzése – Rétság Város Cigány Nemzetiségi Önkormányzata](#)
- 16167 [Jelentés - A helyi nemzetiségi önkormányzatok gazdálkodása szabályszerűségének ellenőrzése – Rétság Város Szlovák Nemzetiségi Önkormányzata](#)
- 16170 [Jelentés - Az önkormányzatok többségi tulajdonában lévő gazdasági társaságok közfeladat ellátását érintő gazdálkodási tevékenysége szabályszerűségének ellenőrzése – Herpály-Team Építőipari és Szolgáltató Kft.](#)
- 16171 [Jelentés - Az önkormányzatok többségi tulajdonában lévő gazdasági társaságok közfeladat ellátását érintő gazdálkodási tevékenysége szabályszerűségének ellenőrzése – Szentés Városi Szolgáltató Kft.](#)
- 16172 [Jelentés - Az önkormányzatok többségi tulajdonában lévő gazdasági társaságok közfeladat ellátását érintő gazdálkodási tevékenysége szabályszerűségének ellenőrzése – Jászapáti Városüzemeltető Nonprofit Kft.](#)
- 16173 [Jelentés - Az önkormányzatok többségi tulajdonában lévő gazdasági társaságok közfeladat ellátását érintő gazdálkodási tevékenysége szabályszerűségének ellenőrzése – Balatonalmádi Kommunális és Szolgáltató Nonprofit Kft.](#)
- 16174 [Jelentés - Az önkormányzatok többségi tulajdonában lévő gazdasági társaságok közfeladat ellátását érintő gazdálkodási tevékenysége szabályszerűségének ellenőrzése – Kisújszállási Városgazdálkodási Nonprofit Kft.](#)
- 16175 [Jelentés - Az önkormányzatok többségi tulajdonában lévő gazdasági társaságok közfeladat ellátását érintő gazdálkodási tevékenysége szabályszerűségének ellenőrzése - Balassagyarmati Városüzemeltetési Nonprofit Kft.](#)
- 16180 [Jelentés - Az önkormányzatok többségi tulajdonában lévő gazdasági társaságok gazdálkodásának ellenőrzése – Kaposvári Nagypiac Kft.](#)
- 16181 [Jelentés - Az önkormányzatok belső kontrollrendszere kialakításának és működtetésének ellenőrzése – Almásfüzitő](#)
- 16182 [Jelentés - Az önkormányzatok belső kontrollrendszere kialakításának és működtetésének ellenőrzése – Duna-szeg](#)
- 16183 [Jelentés - Az önkormányzatok belső kontrollrendszere kialakításának és működtetésének ellenőrzése – Fót](#)
- 16184 [Jelentés - Az önkormányzatok belső kontrollrendszere kialakításának és működtetésének ellenőrzése – Százhalombatta](#)
- 16186 [Jelentés - Az önkormányzatok belső kontrollrendszere kialakításának és működtetésének ellenőrzése – Törökszentmiklós](#)
- 16187 [Jelentés - Az önkormányzatok többségi tulajdonában lévő gazdasági társaságok gazdálkodásának ellenőrzése – Kecskeméti TISZK Integrált Szakképző Központ Nonprofit Közhasznú Kft.](#)
- 16188 [Jelentés - Az önkormányzatok többségi tulajdonában lévő gazdasági társaságok közfeladat ellátását érintő gazdálkodási tevékenysége szabályszerűségének ellenőrzése – KÖVA-KOM Nonprofit Zrt.](#)
- 16189 [Jelentés - Az önkormányzatok többségi tulajdonában lévő gazdasági társaságok közfeladat ellátását érintő gazdálkodási tevékenysége szabályszerűségének ellenőrzése – Csongrádi Közmű Szolgáltató Kft.](#)
- 16190 [Jelentés - Az önkormányzatok többségi tulajdonában lévő gazdasági társaságok gazdálkodásának ellenőrzése – AGORA Nonprofit Kft.](#)
- 16192 [Jelentés - Távhőszolgáltatók ellenőrzése - Püspökladányi Városüzemeltető és Gyógyfürdő Kft.](#)
- 16193 [Jelentés - Az önkormányzatok többségi tulajdonában lévő gazdasági társaságok közfeladat ellátását érintő gazdálkodási tevékenysége szabályszerűségének ellenőrzése – Várpalotai Közüzemi Kft.](#)
- 16194 [Jelentés - Az önkormányzatok többségi tulajdonában lévő gazdasági társaságok közfeladat ellátását érintő gazdálkodási tevékenysége szabályszerűségének ellenőrzése - HÓDFÓ Hódmezővásárhelyi Foglalkoztató Közhasznú Nonprofit Kft.](#)
- 16195 [Jelentés - Távhőszolgáltatók ellenőrzése - Hódmezővásárhelyi Vagyonkezelő és Szolgáltató Zrt.](#)
- 16196 [Jelentés - Az önkormányzatok többségi tulajdonában lévő gazdasági társaságok közfeladat ellátását érintő gazdálkodási tevékenysége szabályszerűségének ellenőrzése - Eleki Hulladékgyűjtési Nonprofit Kft.](#)
- 16197 [Jelentés - Az önkormányzatok belső kontrollrendszere kialakításának és működtetésének ellenőrzése – Arló](#)
- 16198 [Jelentés - Az önkormányzatok pénzügyi gazdálkodási helyzetének, szabályszerűségének utóellenőrzése – Fűzesabony](#)
- 16199 [Jelentés - Esztergom Város Önkormányzata adósságrendezi eljárásának ellenőrzése](#)
- 16200 [Jelentés - Gönc Város Önkormányzata adósságrendezi eljárásának ellenőrzése](#)

- 16201 [Jelentés - Nagydobos Község Önkormányzata adósságrendezési eljárásának ellenőrzése](#)
- 16202 [Jelentés - Nemesvid Község Önkormányzata adósságrendezési eljárásának ellenőrzése](#)
- 16203 [Jelentés - Sáta Község Önkormányzata adósságrendezési eljárásának ellenőrzése](#)
- 16204 [Jelentés - Selyeb Község Önkormányzata adósságrendezési eljárásának ellenőrzése](#)
- 16205 [Jelentés - Verseg Község Önkormányzata adósságrendezési eljárásának ellenőrzése](#)
- 16206 [Jelentés - Megyei hatókörű városi múzeumok ellenőrzése – Déri Múzeum, Debrecen](#)
- 16207 [Jelentés - Megyei hatókörű városi múzeumok ellenőrzése – Damjanich János Múzeum, Szolnok](#)
- 16208 [Jelentés - Megyei hatókörű városi múzeumok ellenőrzése – Jósa András Múzeum, Nyíregyháza](#)
- 16209 [Jelentés - Megyei hatókörű városi múzeumok ellenőrzése – Rómer Flóris Művészeti és Történeti Múzeum, Győr](#)
- 16210 [Jelentés - Megyei hatókörű városi múzeumok ellenőrzése – Wosinsky Mór Megyei Múzeum, Szekszárd](#)
- 16211 [Jelentés - Megyei hatókörű városi múzeumok ellenőrzése – Ferenczy Múzeum, Szentendre](#)
- 16212 [Jelentés - Az önkormányzatok többségi tulajdonában lévő gazdasági társaságok gazdálkodásának ellenőrzése – Tettye Forrásház Pécsi Városi Víziközmű Üzemeltetési Zrt.](#)
- 16213 [Jelentés - Az önkormányzatok gazdasági társaságai – Az önkormányzatok többségi tulajdonában lévő gazdasági társaságok gazdálkodásának ellenőrzése – Pécsi Nemzeti Színház Nonprofit Kft.](#)
- 16214 [Jelentés - Utóellenőrzések – Tarnabod Községi Önkormányzat belső kontrollrendszerének kialakítása, valamint egyes kontrolltevékenységek és a belső ellenőrzés működésének utóellenőrzése](#)
- 16215 [Jelentés - Utóellenőrzések – Cibakháza Nagyközségi Önkormányzat belső kontrollrendszerének kialakítása, valamint egyes kontrolltevékenységek és a belső ellenőrzés működésének utóellenőrzése](#)
- 16216 [Jelentés - Az önkormányzatok többségi tulajdonában lévő gazdasági társaságok gazdálkodásának ellenőrzése – kecskeméti STADION Sportlétesítményeket Működtető Nonprofit Kft.](#)
- 16217 [Jelentés - Az önkormányzatok többségi tulajdonában lévő gazdasági társaságok közfeladat ellátását érintő gazdálkodási tevékenysége szabályszerűségének ellenőrzése – Dunaújvárosi Víz-, Csatorna- Hőszolgáltató Kft.](#)
- 16218 [Jelentés - A vagyongazdálkodás szabályszerűségének utóellenőrzés - Hőgyész](#)
- 16219 [Jelentés - Utóellenőrzések- Jánossomorja Város Önkormányzata vagyongazdálkodása szabályszerűségének utóellenőrzése](#)
- 16220 [Jelentés - Utóellenőrzések- Rákóczi Zsuzsanna Város Önkormányzat vagyongazdálkodása szabályszerűségének utóellenőrzése](#)
- 16221 [Jelentés - A belső kontrollrendszer kialakításának, egyes kontrolltevékenységek és a belső ellenőrzés működésének utóellenőrzése - Sáránd](#)
- 16222 [Jelentés - Az önkormányzatok többségi tulajdonában lévő gazdasági társaságok közfeladat ellátását érintő gazdálkodási tevékenysége szabályszerűségének ellenőrzése – Kaposvári Hulladékgazdálkodási Kft.](#)
- 16223 [Jelentés - Az önkormányzatok többségi tulajdonában lévő gazdasági társaságok közfeladat ellátását érintő gazdálkodási tevékenysége szabályszerűségének ellenőrzése – Kaposvár Jégcsarnok Fejlesztő és Üzemeltető Kft.](#)
- 16224 [Jelentés - Az önkormányzatok többségi tulajdonában lévő gazdasági társaságok közfeladat ellátását érintő gazdálkodási tevékenysége szabályszerűségének ellenőrzése – Dunanett Dunaújvárosi Regionális Köztisztasági és Hulladékkezelő, Szolgáltató Nonprofit Kft.](#)
- 16225 [Jelentés - Megyei hatókörű városi múzeumok ellenőrzése - Göcseji Múzeum, Zalaegerszeg](#)
- 16226 [Jelentés - Megyei hatókörű városi múzeumok ellenőrzése - Kuny Domokos Múzeum, Tata](#)
- 16227 [Jelentés - Megyei hatókörű városi múzeumok ellenőrzése - Móra Ferenc Múzeum, Szeged](#)
- 16228 [Jelentés - Utóellenőrzések - Az önkormányzatok pénzügyi gazdálkodási helyzetének, szabályszerűségének, utóellenőrzése - Újfehértó](#)
- 16229 [Jelentés - Az önkormányzatok belső kontrollrendszere kialakításának és működtetésének ellenőrzése – Kazincbarcika](#)
- 16230 [Jelentés - Az önkormányzatok belső kontrollrendszere kialakításának és működtetésének ellenőrzése – Győr](#)
- 16231 [Jelentés - Az önkormányzatok belső kontrollrendszere kialakításának és működtetésének ellenőrzése – Budapest Főváros IV. Kerület Újpest](#)
- 16232 [Jelentés - Az önkormányzatok belső kontrollrendszere kialakításának és működtetésének ellenőrzése – Vecsés](#)
- 16233 [Jelentés - Az önkormányzatok belső kontrollrendszere kialakításának és működtetésének ellenőrzése – Dunakeszi](#)
- 16234 [Jelentés - Az önkormányzatok többségi tulajdonában lévő gazdasági társaságok gazdálkodásának ellenőrzése – Térségi Hulladék-Gazdálkodási Kft.](#)
- 16237 [Jelentés - Az önkormányzatok többségi tulajdonában lévő gazdasági társaságok gazdálkodásának ellenőrzése – MIHŐ Miskolci Hőszolgáltató Kft.](#)

- 16238 [Jelentés - Az önkormányzatok többségi tulajdonában lévő gazdasági társaságok gazdálkodásának ellenőrzése – MIVÍZ Miskolci Vízmű Kft.](#)
- 16239 [Jelentés - Megyei hatókörű városi múzeumok ellenőrzése - Janus Pannonius Múzeum, Pécs](#)
- 16240 [Jelentés - Megyei hatókörű városi múzeumok ellenőrzése - Rippl-Rónai Megyei Hatókörű Városi Múzeum, Kaposvár](#)
- 16241 [Megyei hatókörű városi múzeumok ellenőrzése - Dobó István Vármúzeum, Eger](#)
- 16242 [Jelentés - Megyei hatókörű városi múzeumok ellenőrzése - Dornyay Béla Múzeum, Salgótarján](#)
- 16243 [Jelentés - Megyei hatókörű városi múzeumok ellenőrzése - Munkácsy Mihály Múzeum, Békéscsaba](#)
- 16244 [Jelentés - Az önkormányzatok többségi tulajdonában lévő gazdasági társaságok gazdálkodásának ellenőrzése – Szentlőrinci Közüemi Nonprofit Kft.](#)
- 16245 [Jelentés - Az önkormányzatok többségi tulajdonában lévő gazdasági társaságok gazdálkodásának ellenőrzése – NYÍRSÉGVÍZ Nyíregyháza és Térsége Víz- és Csatornamű Zrt.](#)
- 16246 [Jelentés - Az önkormányzatok többségi tulajdonában lévő gazdasági társaságok közfeladat ellátását érintő gazdálkodási tevékenysége szabályszerűségének ellenőrzése – BÁCSVÍZ Víz- és Csatornaszolgáltató Zrt.](#)
- 16247 [Jelentés - Az önkormányzatok többségi tulajdonában lévő gazdasági társaságok közfeladat ellátását érintő gazdálkodási tevékenysége szabályszerűségének ellenőrzése – Hírös Sport Szabadidő Létesítményeket Működtető és Szolgáltató Nonprofit Kft.](#)
- 16248 [Jelentés - Az önkormányzatok többségi tulajdonában lévő gazdasági társaságok gazdálkodásának ellenőrzése – Székesfehérvár Városgondnoksága Kft.](#)
- 16249 [Jelentés - Az önkormányzatok többségi tulajdonában lévő gazdasági társaságok gazdálkodásának ellenőrzése – SZÉPHŐ Székesfehérvári Épületfenntartó és Hőszolgáltató Zrt.](#)
- 16250 [Jelentés - Az önkormányzatok többségi tulajdonában lévő gazdasági társaságok gazdálkodásának ellenőrzése – Tatabánya Erőmű Kft.](#)
- 16251 [Jelentés - Az önkormányzatok többségi tulajdonában lévő gazdasági társaságok gazdálkodásának ellenőrzése – Tüke Busz Közösségi Közlekedési Zrt.](#)
- 16252 [Jelentés - Az önkormányzatok többségi tulajdonában lévő gazdasági társaságok gazdálkodásának ellenőrzése – BAKONYKARSZT Víz- és Csatornamű Zrt.](#)
- 16253 [Jelentés - Az önkormányzatok többségi tulajdonában lévő gazdasági társaságok gazdálkodásának ellenőrzése – „Kittenberger Kálmán” Növény és Vadaspark Szolgáltató Közhasznú Nonprofit Kft.](#)
- 16254 [Jelentés - Az önkormányzatok többségi tulajdonában lévő gazdasági társaságok gazdálkodásának ellenőrzése – KAVÍZ Kaposvári Víz- és Csatornamű Kft.](#)
- 16255 [Jelentés - Az önkormányzatok többségi tulajdonában lévő gazdasági társaságok gazdálkodásának ellenőrzése – Kaposvári Közlekedési Zrt.](#)
- 16256 [Jelentés - Az önkormányzatok többségi tulajdonában lévő gazdasági társaságok gazdálkodásának ellenőrzése – Pécs Holding Városi Vagyonkezelő Zrt.](#)
- 16257 [Jelentés - Az önkormányzatok többségi tulajdonában lévő gazdasági társaságok gazdálkodásának ellenőrzése – Dunaújvárosi Szennyvíztisztító Szolgáltató Kft.](#)
- 16258 [Jelentés - Az önkormányzatok többségi tulajdonában lévő gazdasági társaságok gazdálkodásának ellenőrzése – Szolnoki Városfejlesztő Zrt.](#)

### Analyses, studies

- T/400 [Elemzés a 2015. évi integritás felmérés helyi önkormányzatok intézménycsoportban mért eredményeiről](#)
- T/403 [Elemzés a 2015. évi integritás felmérés óvodák, bölcsődék intézménycsoportokban mért eredményeiről](#)
- T/406 [Elemzés a 2015. évi integritás felmérés szabadidős és sport intézmények intézménycsoportban mért eredményeiről](#)
- T/408 [Elemzés a 2015. évi integritás felmérés kulturális intézmények csoportban mért eredményeiről](#)

■ ANNEX III: LIST OF ABBREVIATIONS

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**Organisations**

ÁEEK	National Healthcare Centre
ÁKK	Government Debt Management Agency
SAO	State Audit Office of Hungary
BM	Ministry of the Interior
DMVR Zrt.	Danube Regional Waterworks Ltd.
DRV Zrt.	Southern Transdanubian Regional Waterworks Ltd.
UN	United Nations
EUROSAI	European Organisation of Supreme Audit Institutions
ÉDV Zrt.	Northern Transdanubian Waterworks Ltd.
ÉRV Zrt.	Northern Hungarian Regional Waterworks Ltd.
FM	Ministry of Rural Development
IDI	INTOSAI Development Initiative
INTOSAI	International Organisation of Supreme Audit Institutions
KIM	Ministry of Public Administration and Justice
Public Procurement Arbitration Board	For the settlement of legal disputes affecting public procurement procedures, the legislator has established an organisation with a special legal status – the Public Procurement Arbitration Board –, the competences of which are defined in Article 145(2)–(3) of Act CXLIII of 2015 on Public Procurement (hereinafter: PPA).
KSH	Hungarian Central Statistical Office
KT	Fiscal Council
MÁK	Hungarian State Treasury
MEKH	Hungarian Energy and Public Utility Regulatory Authority
MKVK	Chamber of Hungarian Auditors
MNB	National Bank of Hungary
MNV Zrt.	Hungarian National Asset Management Inc.
Hungarian Academy of Sciences	Hungarian Academy of Sciences
MTI OS	National Press Service of the Hungarian News Agency
NAIH	National Authority for Data Protection and Freedom of Information
NAV	National Tax and Customs Administration
NAV KEKI	Training, Health and Cultural Institute of the National Tax and Customs Administration
NFA	National Land Fund Management Organisation
NFH	Hungarian Authority for Consumer Protection
NFM	Ministry of National Development
NGM	Ministry for National Economy
NHKV	National Waste Management Coordination and Asset Management Ltd.
NKE	National University of Public Service
NKH	National Transport Authority
NRSZH	National Office for Rehabilitation and Social Affairs
OBH	National Office for the Judiciary
OECD	Organisation for Economic Cooperation and Development
NA	National Assembly

ONYF	Central Administration of National Pension Insurance
PESZK	Dr. Piróth Endre Social Services
SZMGYK	Szabolcs-Szatmár-Bereg County Child Protection Centre Tiszadob
SZTNH	Hungarian Intellectual Property Office
TRV Zrt.	Tisza Regional Waterworks Ltd.
VSO	Viktor Special Home
ZMSZI	Zala County Socio-therapy Institution

### Legislation

Resolution No. 31/2015 (VII. 7.) OGY	Resolution No. 31/2015 (VII. 7.) OGY of the National Assembly on the promotion of the bid for the 2024 Summer Olympic and Paralympic Games to be held in Budapest
Government Decree No. 1660/2015 (IX. 15.)	Government Decision No. 1660/2015 (IX. 15.) on the Renewal of the Remuneration System of the Senior Officers of Business Associations in Majority State Ownership
Fundamental Law	The Fundamental Law of Hungary (25 April 2011)
Act on Public Finances	Act CXCV of 2011 on Public Finances
SAO Act	Act LXVI of 2011 on the State Audit Office of Hungary
Ávr.	Government Decree No. 368/2011 (XII. 31.) on the Implementation of the Act on Public Finances
Criminal Proceedings Act	Act XIX of 1998 on Criminal Proceedings
Bkr.	Government Decree No. 370/2011 (XII. 31.) on the Internal Control System and on the Internal Audit of Central Budgetary Institutions
Economic Stability Act	Act CXCV of 2011 on the Economic Stability of Hungary
Information Security Act	Act L of 2013 on the Electronic Information Security of Central and Local Government Agencies
Privacy Act	Act CXII of 2011 on Informational Self-Determination and Freedom of Information
PPA	Act CXLIII of 2015 on Public Procurement
Auditor Act	Act XLIV of 2016 amending Act LXXV of 2007 on the Chamber of Hungarian Auditors, the Activities of Auditors and the Public Oversight of Auditors, and on Certain Financial Acts
Party Act	Act XXXIII of 1989 on the Operation and Financial Management of Political Parties
Accounting Act	Act C of 2000 on Accounting Government Decree No. 1660/2015

### Other

GDP	Gross Domestic Product
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**INDEPENDENT AUDITOR'S REPORT**  
**and**  
**SUMMARY FOR THE SPEAKER OF THE NATIONAL ASSEMBLY**  
on  
the review of the 2016 annual budgetary statement  
**of the budget heading for the State Audit Office of Hungary**

**PREPARED BY:**



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Budapest, 23 March 2017

Office of the National Assembly of  
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**Independent Auditor's Report**

Msz.: 4-01901

23.03.2017

## INDEPENDENT AUDITOR'S REPORT

**to the management and governing body of the State Audit Office of Hungary**

### **Opinion**

We have audited the accompanying 2016 annual budgetary statements of the budget heading for the State Audit Office of Hungary (hereinafter: SAO), which comprise the following statements audited by us:

- **The 2016 budget report**, in which **the realised budgetary revenue is HUF 9,359,457 thousand, and the realised budgetary expenditure is HUF 8,734,381 thousand.**
- **The 2016 residue statement**, in which total residue is HUF 647,717 thousand.
- Additional data reporting (accounts); **the balance sheet statement prepared for 31 December 2016, showing a balance sheet total of HUF 4,029,190 thousand;** a profit and loss statement for the year then ended, showing a **loss for the year of HUF –197,934 thousand;** notes on the accounts.

**In our opinion, the attached annual budgetary statement provides a true and fair view of the execution of the SAO's 2016 budget, of the SAO's assets and financial standing as at 31 December 2016 and of the SAO's income position for the budget year then ended, in accordance with Act C of 2000 on Accounting (hereinafter: Accounting Act) and with Government Decree No. 4/2013 (I. 11.) on Public Finances Accounting (hereinafter: PF Decree) effective in Hungary.**

### **Basis of the opinion**

We conducted our audit in accordance with the Hungarian National Auditing Standards and other laws and regulations effective in Hungary on the subject of auditing. Our responsibility under these Standards is presented in more detail in the section entitled "*The auditor's responsibility for the audit of the annual budgetary statement*" of our report.

In accordance with the ethical requirements effective in Hungary pertaining to our audit of the annual budgetary statement, our organisation is independent of the SAO; moreover, we have also adhered to any other ethical responsibilities prescribed by the same ethical requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



## **Responsibility of Management and those charged with governance for the annual budgetary statement**

Management is responsible for the preparation and fair presentation of the annual budgetary statement in accordance with the provisions of the Accounting Act and the PF Decree, and for the maintenance of internal controls that Management deems to be relevant to the preparation and fair presentation of annual budgetary statements that are free from material misstatement, whether due to fraud or error.

In preparing the annual budgetary statement, Management is required to assess the enforcement of the going concern principle at the SAO, with special regard to organisational changes and changes in task performance during the reporting period or scheduled for the budget year following the reporting period. Moreover, Management is responsible for the application of the going concern accounting principle in the annual budgetary statement.

Those charged with governance are responsible for the supervision of the SAO's financial reporting process.

## **Auditor's responsibility for the audit of the annual budgetary statement**

During the audit our objective is to obtain reasonable assurance that the annual budgetary statement as a whole is free from material misstatement, whether due to fraud or error, and to issue an independent auditor's report containing our opinion on the basis of our audit. While reasonable assurance means a high degree of assurance, it does not guarantee that an audit conducted in accordance with the Hungarian National Auditing Standards always detects otherwise existing material misstatements. Misstatements may result from fraud or error and are deemed to be material when it can be reasonably assumed that they may affect – either alone or jointly – the economic decisions of the users of the annual budgetary statement.

As part of an audit conducted in accordance with the Hungarian National Auditing Standards, we apply professional judgement and maintain an attitude of professional scepticism throughout the audit. In addition:

- We identify and assess the risk of material misstatements, whether due to fraud or error, in the annual budgetary statement, we design and execute audit procedures that are suitable for addressing such risks and obtain sufficient and appropriate audit evidence for substantiating our opinion. The risk of failure to detect material misstatements caused by fraud is higher than the risk of failure to detect misstatements resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the overriding of internal control;
- We study the internal control relevant to the audit in order to design audit procedures that are appropriate under the given circumstances, but not for the purpose of expressing an opinion on the efficiency of the SAO's internal control.

Office of the National Assembly of  
Hungary  
H-1358 Budapest, Széchenyi rkp. 19.

**Independent Auditor's Report**

Msz.: 4-01901

23.03.2017

- We evaluate the compliance of the accounting policy applied by Management and the reasonability of Management's accounting estimates and of the relevant disclosures.
- We draw conclusions about the propriety of Management's application of the going concern principle in accounting and, based on the audit evidence obtained, about the existence of material uncertainty about events or conditions that may give rise to significant doubts at the SAO with respect to the enforcement of the going concern principle, with special regard to organisational changes and changes in task performance during the reporting period or scheduled for the budget year following the reporting period. When we find that material uncertainty exists, we are required to call attention in our independent auditor's report to the relevant disclosures in the annual budgetary statement or, if the disclosures are inadequate in this regard, we are required to issue a qualified opinion. Our conclusions are based on audit evidence obtained up to the date of our independent auditor's report. However, future events or conditions may influence the enforcement of the going concern principle at the SAO.
- We evaluate the overall presentation of the annual budgetary statement – including the disclosures contained in the notes to the financial statements – and assess whether the annual budgetary statement presents a fair view of the underlying transactions and events.

Among other issues, we communicate to those charged with governance the expected scope and schedule of the audit and the significant findings of the audit, including any significant deficiencies identified by our audit with respect to the internal control system applied by the SAO. During our audit of the SAO, we did not defect any significant deficiencies.

Budapest, 23 March 2017

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**András Villányi**

Managing Director

Dialóg Plusz Audit Könyvvizsgáló Kft

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MKVK registration

number: 000088

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**Ágota Farkas Gáspárné**

Audit Manager

chartered accountant

MKVK (Chamber of Hungarian

Auditors) membership no. 002289

## SUMMARY FOR THE SPEAKER OF THE NATIONAL ASSEMBLY

### 1. General information

#### 1.1. The assignment and its delivery

The Speaker of the National Assembly appointed Dialog Plusz Audit Könyvvizsgáló Kft. to audit the budgetary statement of the budget heading for the State Audit Office (hereinafter: SAO), drafted for the balance sheet date of 31 December 2016. In reviewing the budgetary statement, we considered the following statutory provisions:

- Act CXCV of 2011 on Public Finances (Act on Public Finances)
- Act C of 2000 on Accounting (Act on Accounting)
- Government Decree No. 368/2011 (XII. 3.) on the Implementation of the Act on Public Finances (Ávr.)
- Government Decree No. 4/2013 (I. 11.) on the Accounting of Public Finances (Áhsz.)
- Act LXVI of 2011 on the State Audit Office of Hungary (Act on the SAO)
- Act C of 2015 on the 2016 Central Budget of Hungary (Budget Act)
- Decree No. 38/2013 (IX. 19.) NGM of the Minister of National Economy on the mandatory accounting of certain economic events frequently arising in public finances
- Act LXXV of 2007 on the Chamber of Hungarian Auditors, the Activities of Auditors and the Public Oversight of Auditors
- Decree No. 10/2013 (III. 13.) NGM on the institutional budget

The results of our audit are summed up in this auditor's summary. The staff of the SAO made available all required documents, the requested information and accounting records, and provided us with all other information that we deemed necessary.

We performed the audit with due consideration to the SAO's audit methodology and sampling procedure, with the assistance of the quality control policy and approved audit programme of the Chamber of Hungarian Auditors, and drawing on the practical experiences of financial audits. In the course of our work, we ascertained the validity of the items included in the statement by reconciling the general ledger inventories with the analytical records corroborating the statement; in addition, we applied random sampling supported by a computer programme to select from the population of accounting records. We performed a comprehensive audit on the selected items, supplementing the audit with the evaluation of our analytical procedures.

The audit was performed by chamber member (membership no. 002289) Ágota Farkas Gáspárné, chartered accountant.

We believe that our work provides an adequate basis for formulating our audit opinion and issuing an opinion.

Office of the National Assembly of  
Hungary  
H-1358 Budapest, Széchenyi rkp. 19.

**Independent Auditor's Report**

Msz.: 4-01901

23.03.2017

## 1.2. Overview of the budget heading

Date of the SAO's Deed of Foundation, as amended from time to time: 31 March 2005, Document ID: A-50-014/2005.

### 1.2.1. Legal background

- Name of heading: State Audit Office of Hungary
- Official abbreviated name of the budgetary institution: SAO
- Registered seat: H-1052 Budapest, Apáczai Csere János utca 10.
- Foundation: pursuant to Article 1 (1) of Act XXXVIII of 1989, effective from 1 January 1990
- Registration number: 324766
- Statistical code: 15324762-8411-311-01,
- Tax ID no.: 15324762-2-41,
- Social security number: 91111,
- Public Finance ID: Áht. 033572,
- Number and designation of the professional task: 841113 Activities of the organs of the state and of autonomous organs.

### 1.2.2. Economic background

As part of its public duties, the SAO performs audit tasks, issues recommendations and provides opinions, as specified in detail in the Deed of Foundation of the SAO.

The basic task of the State Audit Office of Hungary is to audit the utilisation of the resources of public finances and the financial management of state and local government assets.

The SAO does not pursue business activities.

The SAO is vested with the task of executing external audits, promoting the transparency and accountability of the use of public funds and public assets. As the supreme audit institution of the public sector, in discharging its duties it is vested with general powers. In its organisational operations, in developing the professional rules and methods of the audits performed and during the execution of the audits, the SAO considers domestic and international professional recommendations, guidelines and standards to be authoritative. The President is responsible for the continuous update and publication of auditing rules and methods.

By disclosing its audit experiences and by enhancing and publishing its audit methodology, the SAO's activity in 2016 supported the implementation, operation and enhancement of internal control systems in the budgetary area. Other activities of the organisation – beyond its strictly interpreted audit responsibilities and powers – include various mandates and tasks prescribed by the Fundamental Law, the Act on the SAO and other legal regulations.

The SAO updated its **Operational and Organisational Rules** in accordance with the 2016 changes in its organisational structure and operation with its regulation entitled “**SAO Instruction 3/2016 (XII. 29.) of the President of the State Audit Office of Hungary on the Operational and Organisational Rules of the State Audit Office of Hungary**” and with the organisational chart included in the annex of the OOR.

Office of the National Assembly of  
Hungary  
H-1358 Budapest, Széchenyi rkp. 19.

**Independent Auditor's Report**

Msz.: 4-01901

23.03.2017

As a result of the OOR modifications, **the Accounting Policy, the related Financial Management Policy, the rules of procedure of the Finance Directorate and the task performance table summarising the financial management constitution have also been modified.**

**The most important element of the organisational change is the establishment of an administrative unit performing uniform human resource management. The new unit operates as follows:**

Auditors employed by the State Audit Office of Hungary and administrative employees employed as civil servants carry out their duties as staff members of the Office of Auditors. Exceptions include auditors performing managerial tasks during their assignment, auditors performing internal audit, auditors engaged in legal compliance analysis and the owners of ad-hoc cases. The provision of human resources is aligned with task performance needs within the units. It is carried out through the reallocation of resources from the Office of Auditors for the duration of the assignment, based on the employer's directive.

**The basic function of the State Audit Office of Hungary is audit work, performed by auditors.** Audit tasks are executed within the framework of **audit strategy, audit supporting, audit supplementing, audit leading, audit supervising, audit controlling and audit implementing functions.**

**The supplementary audit function ensures the regularity, economy, effectiveness, efficiency and reliability of the SAO's operation.** Such responsibilities include tasks linked to the institutional budget and institutional financial management of the audited entities and the related book-keeping and accounting activities, as well as asset management and operational tasks.

### **1.2.3 Additional information on financial management**

The State Audit Office of Hungary does not use mark-to-market valuation.

In 2016, there was no turnover on the chapter-managed appropriation of the State Audit Office of Hungary.

In its 2016 financial management, the SAO strived to use the approved budgetary appropriations sparingly and efficiently, reducing costs.

The IT developments, asset purchases and building renovations of the SAO in 2016 were intended to facilitate higher-quality audit work and to put in place a contemporary technical basis for the SAO's activity.

**Up until the balance sheet date, no factors or information came to our attention that might restrict or jeopardise the SAO's activities. Accordingly, based on the data available, it has the capacity to sustain its operations, and the principle of going concern is satisfied.**

**The State Audit Office of Hungary has all of the accounting policies prescribed by law at its disposal;** it has updated the relevant policies with the legislative changes adopted in 2016 in accordance with the special traits of its own activities and organisational characteristics, and it pursues its accounting administrative activity accordingly. The internally developed accounting information system meets both the requirements of management and the information needs of the data reporting system.

Office of the National Assembly of  
Hungary  
H-1358 Budapest, Széchenyi rkp. 19.

**Independent Auditor's Report**

Msz.: 4-01901

23.03.2017

The budgetary statement was compiled in accordance with the provisions of the Act on Accounting and of the regulations on the reporting and book-keeping obligations of budgetary institutions; reasons for deviation from the provisions of the law have not arisen.

There have not been significant changes in the SAO's general ledger, analytical records or its payroll and labour system in 2016; as a result of the developments implemented in 2015, the established systems provide adequate support to the tasks performed by the Finance Directorate and to external, internal, management and other central data supplies.

## **2. The assets and financial position of the SAO as at 31 December 2016**

### **2.1. General findings**

The general ledger statement reflects the data of the State Audit Office of Hungary economic entity as at 31 December 2016. The closing of the general ledger fully includes the valuations, qualifications and reclassifications required to be performed at the end of the year.

Data included in the SAO's financial statements were supported by a matching general ledger statement, reconciled analytical records, inventories and accounting records selected by sampling.

### **2.2. Assets and financial position (balance sheet)**

In accordance with the balance sheet items stipulated by Government Decree No. 4/2013 (I. 11.) on the Accounting of Public Finances and with the report template for budgetary institutions, the budgetary statement of the SAO has been drawn up in the structure and content required by law by the appropriate deadline. The balance sheet total declined by 4.61% compared to the previous year, as discussed in detail in the subsections of Chapter 2.2.

#### **2.2.1. Presentation of fixed assets**

**2.2.1.1.** Stated as HUF 192,546 thousand, net value of *intangible assets* corresponds with the analytical records; the accounting of current year depreciation complied with regulations.

The value of concessions and similar rights accounts for 97.43 % of this asset group, while intellectual property comprises the rest. IT developments were implemented in line with the project plans defined in the detailed IT strategy.

**2.2.1.2.** The value of *tangible assets* as stated in the balance sheet was HUF 3,169,038 thousand, which is confirmed by analytical records.

The accounts on tangible assets were in line with the statutory requirements in all inspected cases. Land and buildings and rights to immovables constitute 89.10% of tangible assets.

Owing to the ongoing renovations offsetting the effect of depreciation, the net value of the land and building stock declined only by 0.85% compared to the previous year.

Office of the National Assembly of  
Hungary  
H-1358 Budapest, Széchenyi rkp. 19.

**Independent Auditor's Report**

Msz.: 4-01901

23.03.2017

The decline observed in the stock of tangible assets can be attributed to the investment projects carried over to 2017 owing to public procurement procedures in progress.

The inventory count of tangible assets on the balance sheet day was performed in accordance with the Stocktaking Policy of the SAO, with the assistance of the staff of the Department of Asset Management and Operation in the tangible assets analytical records module of the Forrás.Net integrated administrative system. The assessment of the inventory count, the reconciliation, accounting and justification of deviations comply with legal regulations and the SAO's internal policies.

### 2.2.2. Presentation of current assets

**2.2.2.1.** As before, the SAO's statement does not include *inventories*. As a result of internal process optimisation, stockpiling was eliminated in 2014. Once again, there was no accounting entry in "account class 2" in 2016.

**2.2.2.2.** In the case of *liquid assets*, the value of **HUF 599,071 thousand** stated in the balance sheet corresponded to the statement dated 31 December 2016 for each settlement account on record, as did the HUF 0 closing balance of cash on hand to the closing amount of the cash position report for the period. The decline in the balance sheet total was driven by the contraction in liquid assets, which can be attributed to the even pace of purchases and the related financial settlements at the end of the year.

**2.2.2.3.** At **HUF 11,012 thousand**, *receivables* decreased by 10.57% compared to the previous year. Outstanding receivables for 2016 were stated at a value recognised by the partner as per the consultation at the end of the year. The stated balance sheet value is consistent with the analytical records. The items of the balance sheet row presenting claims due for the fiscal year for funds for accumulation are consistent with the analytical records and include outstanding short-term housing loans to employees. There were no grounds for recognising any impairment on receivables.

### 2.2.3. Presentation of other specific asset-side accounts, accrued and deferred assets

According to the accounting records, the recognition of **HUF 12,541 thousand in the row of accrued and deferred assets** is justified in every case; the items stated correspond to the amounts indicated in the accounting records and the data are presented in the breakdown stipulated by law.

*Other specific asset-side accounts* amount to **HUF 44,981 thousand**, comprising vouchers purchased for distribution among employees, passes, cash substitutes and intra-month payments related to employees for the month of December 2016.



Plusz Audit Kft.

9

H-1137 Budapest, Katona József u. 14.

Office of the National Assembly of

**Independent Auditor's Report**

Msz.: 4-01901

Hungary  
H-1358 Budapest, Széchenyi rkp. 19.

23.03.2017

#### 2.2.4. Presentation of equity capital

The SAO stated its *equity capital* amounting to **HUF 3,312,570 thousand** as at 31 December 2016 in accordance with regulations, calculated from the initial value of national wealth, the change in national wealth, the initial value of other assets, accumulated profit/loss and balance sheet profit/loss with the contents stipulated by Section 14 of the Government Decree on the Accounting of Public Finances. The change in equity was driven by the HUF – 197,934 thousand balance sheet loss recorded for the current year.

#### 2.2.5. Presentation of liabilities

Among its liabilities, the SAO has recorded *liabilities* amounting to **HUF 85,269 thousand payable in the fiscal year** and amounting to **HUF 10,523 thousand becoming due in the year following the fiscal year**.

Liabilities payable in the fiscal year comprise HUF 4,385 thousand for personal allowances, HUF 56,331 thousand for non-personnel expenses of accounts payable and HUF 24,553 for investment expenditures.

Liabilities becoming due in the year following the fiscal year are composed of HUF 70 thousand for personal allowances, HUF 9.763 thousand for non-personnel expenses and HUF 689 thousand for investment.

The amount stated under liabilities as at the balance sheet date is consistent with analytical records; the State Audit Office of Hungary had performed its payment obligations by the deadline, before the cut-off date.

2.2.6. *Other specific liability-side accounts* were not recognised on 31 December 2016.

2.2.7. *Accrued and deferred liabilities* include accrued expenses and expenditures amounting to HUF 614,237 thousand, and deferred accrual-based income amounting to HUF 6,590 thousand. The calculation of accrued and deferred liabilities was substantiated by the analytical records. Personal allowances and their contributions for December 2016 and any costs for 2016 that arose after the balance sheet date were recognised here.

#### 2.3. Budgetary appropriations in the current year

The report on the performance of the appropriations included in the forms constituting a part of the budgetary statement – K1–K8 budget expenditure appropriations – B1–B7 budget revenue appropriations – B8 financing revenues – was compiled in accordance with the provisions of the Government Decree on the specific reporting rules of budgetary institutions.

The original appropriation for chapter-level budget expenditures was HUF 8,567,800 thousand, which, as a result of interim adjustments, rose to HUF 9,382,099 thousand. Actual performance was HUF 8,734,381 thousand.

The original appropriation for budget revenues was HUF 20,000 thousand, which, as a result of interim adjustments, rose to HUF 22,641 thousand. Actual performance was HUF 22,641 thousand.

The original appropriation for financing revenues was HUF 8,547,800 thousand at the chapter level, which, as a result of the use of the previous year's residue, rose to HUF 9,359,457 thousand. Actual performance was HUF 9,359,457 thousand. The revenues and expenditures performed were also stated as a government function.



Office of the National Assembly of  
Hungary  
H-1358 Budapest, Széchenyi rkp. 19.

**Independent Auditor's Report**

Msz.: 4-01901

23.03.2017

#### **2.4. Residue statement, profit and loss account**

**In line of the above, residue from core activity amounted to HUF 647,717 thousand, of which HUF 645,649 thousand is committed residue and HUF 2,068 thousand is uncommitted residue.**

The amount of the accrual-based revenue of HUF 8,593,099 thousand was reduced by material costs of HUF 962,827 thousand, personnel costs of HUF 7,183,223 thousand, depreciation charge of HUF 313,238 thousand and other expenditures of HUF 333,904 thousand. **In 2016, the accrual-based activity of the SAO generated a balance sheet loss of HUF -197,934 thousand.**

The balance sheet P&L rose by 13.92% compared to the previous year. Other expenditures decreased by HUF 343,630 thousand, while accrual-based revenues, services used and personnel costs rose by HUF 257,118 thousand, HUF 243,104 thousand and HUF 324,750 thousand, respectively, compared to the previous year.

#### **2.5. Notes on the accounts**

Constituting a part of the budgetary statement of the SAO, the content and the structure of the *notes on the accounts* essentially comply with the relevant provisions of the government decree on the specific reporting rules of budgetary institutions and of the provisions of the Accounting Act applicable in 2016.

The notes on the accounts presented supplementary information regarding developments in the stocks of intangible assets and fixed assets and in personal allowances.

**The average annual statistical number of employees was 598 persons; at the end of the year, the labour law closing headcount of actual employment was 637 persons.**

### **3. The SAO's accounting and financial regularity and its level of organisation**

The financial and economic activity of the SAO is pursued within the framework defined by external statutory regulations and supported by internal policies. The policies reviewed as part of the audit comply with the prevailing legal requirements. Presidential Instructions are continuously updated to ensure up-to-date information. As regards the policies, the formal requirements of their entry into force are ensured. The policies amended in 2016 were discussed in detail in Chapter 1.2.2 of our report.

#### **4. Internal control**

Bearing in mind the requirements of regularity, economy and efficiency, the SAO operates a strong internal control system to manage risks and to improve the efficiency of the management of resources.

Independent internal audit and integrated financial management control are elements of this process.

Reporting directly to the President and independent of operational functioning, an internal control organisation is in place. With a view to ensuring organisational and functional independence, auditors responsible for internal audit tasks report directly to the President in the context of annual reports.

Office of the National Assembly of  
Hungary  
H-1358 Budapest, Széchenyi rkp. 19.

**Independent Auditor's Report**

Msz.: 4-01901

23.03.2017

Internal audit performed its auditing activity for 2016 on the basis of the work plan approved by the President of the SAO.

Based on the annual internal audit plan, we found that audit tasks in the reporting period were defined in accordance with the strategic audit plan, in consideration of the priorities reflecting the assessment of risk factors and of the internal auditor capacities actually available.

During the audit we reviewed the pre-decision working papers and action plans related to the internal audit reports.

**In the course of our work, we utilised the findings of the internal audit reports entitled “Audit on appropriation management, the regularity of appropriation management and on the financial management of tangible assets”,** which we also deemed to be key documents.

## **5. Regularity of fiscal management**

During our audit, we qualified the regularity of the financial management of the State Audit Office of Hungary in the current year on the basis of the items in the sample selected with the assistance of the IDEA programme.

We inspected the consistency of the budgetary statement with a new audit application supporting the quality control activities of auditors, developed specifically for fiscal management.

In determining the materiality threshold, we took into account the detection risk value determined by the inherent, internal and audit risk.

We defined the sampling size required to achieve a 95% assurance on this basis. We supplemented this methodology with analytical procedures conforming to the Auditing Standards of the Chamber of Hungarian Auditors, the definition of priority audit areas and risk evaluation at the level of assertions, for which the use of audit tables and the audit software provided an adequate foundation.

Since the activity of the State Audit Office of Hungary is among the areas that draw particular public interest, the materiality threshold we defined was somewhat lower than usual.

Given that we have not found any material misstatement in the audited items, we concluded that the economic activity of the State Audit Office of Hungary in 2016 complied with legal regulations.

Office of the National Assembly of  
Hungary  
H-1358 Budapest, Széchenyi rkp. 19.

**Independent Auditor's Report**

Msz.: 4-01901

23.03.2017

**6. Summary:**

Having reviewed the 2016 financial management of the State Audit Office of Hungary economic entity, in summary, we found that the SAO budget heading managed its financial resources reasonably and cost-efficiently, within the limits prescribed by the Act on the Budget, in consideration of the range of budgetary appropriations and in compliance with regulations and internal policies.

The 2016 budgetary statement on the financial management of the State Audit Office of Hungary provides a true and fair view of the budget management, assets and financial standing of the State Audit Office of Hungary.

Budapest, 23 March 2017

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**András Villányi**

Managing Director

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