



STATE AUDIT
OFFICE OF HUNGARY

The Audit Plan of the State Audit Office of Hungary
for the First Half of 2017

TV-0022-001/2016.

December 2016

Approved by

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President

Introduction

The State Audit Office of Hungary (SAO) performs its activity according to audit plans approved by the President, within the framework stipulated by Act LXVI of 2011 on the State Audit Office of Hungary. SAO, as a socially responsible institution subordinate only to law and the National Assembly, considers as its mission to promote the transparent, sound and accountable management of public finances with its value creating audits performed on a solid professional basis. Accordingly, with its professionally substantiated and synchronised audits taking into account topical issues and facilitating positive changes the SAO supports responsible administrative operation that entails consequences and enforces law consistently, thus contributing to the operation of a “well managed state” and the renewal of state management.

It is a basic requirement for audits to be broadly utilised and to contribute to the action against corruption and fraud, in compliance with SAO’s strategic goals. Consequently, SAO participates in the identification and application of the efficient and effective means of fight against corruption risks and corruption as well as in the diffusion of their use, thus emphasising its commitment to the establishment of an integrity-based administrative culture. To this end, SAO has included the evaluation of the application of the integrity approach in its audits.

SAO performs its audit activity according to renewed audit methodologies considering practical experience and international methodological developments as guiding principles. The auditing principles of SAO are public and accessible for all stakeholders and those interested. In 2017, SAO applies compliance and performance audit methodologies in the course of its audits planned. The fundamental principles of compliance auditing provide a solid and broad background for the audit of the responsible, transparent and accountable utilisation of public funds, while the application of the fundamental principles of performance auditing contributes to the observance of the principles of effectiveness, efficiency and economy in the management of public funds and national assets.

SAO prepares its audit plan with the method of rolling planning. It is published and submitted to the National Assembly every six months. During the definition of audit topics and the selection of fields to be audited and audit sites related to each audit topic the SAO strives for the effective, efficient and economic utilisation of its audit resources, taking into account the selection of timely audit topics interesting for the public. The audit plan might change depending on the new circumstances revealed in relation to audits.

The present audit plan contains the audits started in the second half of 2016 and still ongoing (carried over from the previous period), as well as the audits started in the first half of 2017. Part of the audits are carried out as serial audits, which SAO conducts in a specific topic in the same field for several years and according to continuously renewed and updated programmes. Such audits serve the mapping and evaluation of the responsible and regular utilisation of public funds and the performance of tasks of the different sub-areas of public finances and the organisations falling outside them.

Similarly to previous years, the audit on the execution of the 2016 budget is of priority importance, in which SAO applies the audit model suitable for covering the entire public financial management, based on the methodology renewed in 2015. The substantiated planning of the budget is supported by providing an opinion on the 2018 budget appropriation bill.

Similarly to the past years, SAO continues to lay emphasis on the audit of organisations and fields of pivotal importance in terms of the public debt indicator, the general government balance and the competitiveness of the country. SAO continues to audit the debt clearance procedures of local governments on several sites also this half-year, which may contribute with audit findings and recommendations to ensuring the solvency of local governments and the legislative activity of the National Assembly in terms of relevant acts.

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

In 2017, SAO continues auditing the auditors, i.e. it examines institutions which perform audit and supervisory activities. It is within this concept that SAO audits the National Bank of Hungary, the Hungarian State Treasury and the Hungarian Energy and Public Utility Regulatory Authority. As a result of these audits, SAO is able to maximise its contribution to the establishment of a regular, responsible and disciplined financial management.

The audit on the financial management of enterprises owned entirely or partly by the state or local governments focuses on areas that have a significant impact on the economic performance of the country and can influence the deficit of the government sector and the amount of public debt as well.

SAO systematically continues its serial audits on the utilisation of supports received by public bodies for the performance of public tasks, as well as on the utilisation of budget subsidies for institutions outside public finances providing public education and social services, in order to eliminate the ‘blind spots’, i.e. the unaudited areas of public financial management. It is along these lines that SAO continues to audit the financial management of foundations, public foundations in the first half of 2017 and evaluates the financial management of student unions.

The regularity of the financial and asset management activities of institutions using public funds is an important element of the utilisation of public funds and the management of public property. Therefore, auditing the management of the property within the scope of public finances and the activities of organisations to maintain and increase property value, thus contributing to the development of the literacy of public finances is of pivotal importance. Bearing this in mind, audits on the financial and asset management of budgetary institutions, as well as audits on the financial management of enterprises owned by the state or local governments continue also in the first half of 2017. SAO considers as a priority issue the audit of the financial management of regional waterworks managing water utility assets representing a significant national economic value. Within this topic, the yearly evaluation of the activities relating to the exercise of proprietary rights over state property is of priority importance.

In the course of auditing major investments in progress, SAO takes into accounts their risks as well. Our objective is to draw attention to the management of risks already during the major investments. In order to facilitate the effective implementation of investments, the audit covers the application of integrity aspects and the effectiveness of the management.

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

When auditing local governments, SAO focuses on fields where it is the most necessary according to the identified risks. To this end, it also monitors the data available in the central IT system. With its audits based on the evaluation of monitoring reports and the identification of risks having an impact on the financial balance of local governments, SAO contributes to ensuring the sustainability of the financial management and task performance of local governments.

In the first half 2017, SAO evaluates the monitoring system of EU-funded grants for research and development and innovation. With its relevant recommendations it can help the state in effectively and efficiently reallocate GDP as well as in evaluating whether it intervenes in economic processes in a reasonable way.

The protection of children and the provision of conditions necessary for their growth is essential in the future development of the national economy and preservation of social values. With this in view, SAO continues the audit commenced in 2016 on the institutional system of child protection, including the examination of the entire system and specific priority areas, as well as the evaluation of the regular operation in compliance with the objectives. Furthermore, as a new topic SAO also audits the system of child nutrition.

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

SAO considers it as a mission to contribute to the achievement of environmental objectives with its audits, thus supporting sustainable development. In the past years, several SAO audits related to the topic of sustainable development in a direct or indirect way. Within this topic SAO continues the audits on the utilisation of funds spent on protection against ragweed and the effectiveness and efficiency of measures aimed at the preservation of air quality in 2017. The latter audit is carried out in cooperation with other SAIs, which provides possibility for the exchange of audit experience. The appropriateness of the public services of chimney cleaning is essential in the safe energy utilisation, while it is also an important life and asset preserving issue affecting a broad part of the society.

The audits on the funds spent on the referendum of 2 October 2016 and the by-elections of 2016 facilitate the transparency of public funds.

Based on its legal mandate, SAO continues to audit the financial management of parties and party foundations receiving budget subsidies in 2017 as well.

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

ecclesiastical institutions and organisation utilising EU funds. Self-tests can be downloaded from the website of SAO.

A strategic goal of SAO is to contribute with its audit activity to the reinforcement of public confidence, the changes in the audited entities' attitude, the assistance provided to the law-making activities of the legislation, as well as to make the utilisation of its audits visible in the changes generated in the minds of the public and in relation to the most important socio-economic issues.

LIST OF AUDIT SUBJECTS

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

1. *Audit on the debt clearance procedures of local governments* – Systems audit on the debt clearance procedures of local governments (ongoing task according to the audit plan for the second half of 2016)
2. *Audit on the institutional system of child protection* – Compliance and performance audit on the task performance of central and local government proprietors providing personal care (ongoing task according to the audit plan for the second half of 2016)
3. Compliance and performance audit on chimney cleaning public services (ongoing task according to the audit plan for the second half of 2016)
4. Compliance and performance audit on the combat against ragweed (ongoing task according to the audit plan for the second half of 2016)
5. Compliance audit on the Hungarian Energy and Public Utility Regulatory Authority (ongoing task according to the audit plan for the second half of 2016)
6. Compliance audit on the information systems of the National Tax and Customs Administration (ongoing task according to the audit plan for the second half of 2016)
7. *Audit on the EU-funded research, development and innovation grants* – Compliance audit of the follow-up system of EU-funded research, development and innovation grants (ongoing task according to the audit plan for the second half of 2016)
8. Compliance and performance audit on the financial management of regional waterworks (ongoing task according to the audit plan for the second half of 2016)
9. Compliance and performance audit on the financial management of the Hungarian State Treasury (ongoing task according to the audit plan for the second half of 2016)
10. Regularity audit on the financial management of foundations/ public foundations (ongoing task according to the audit plan for the second half of 2016)
11. Compliance and performance audit on the measures aiming at the protection of air quality (ongoing task according to the audit plan for the second half of 2016)
12. Audit on the regularity of the National Bank of Hungary (ongoing task according to the audit plan for the second half of 2016)
13. *Audit on non-governmental human service providers* – Compliance audit on the utilisation of funds granted from the central budget to proprietors of public education and social institutions providing human services outside public finances – second phase) (ongoing task according to the audit plan for the second half of 2016)
14. *Compliance audit on public bodies* – second phase (ongoing task according to the audit plan for the second half of 2016)
15. *Compliance audit on the asset preservation and financial management activities of state-owned (or partly state-owned) enterprises* – second phase (ongoing task according to the audit plan for the second half of 2016)
16. *Enterprises of local governments* – Compliance audit on the financial management of enterprises in a majority ownership of local governments – third phase (ongoing task

according to the audit plan for the second half of 2016)

17. *State-owned enterprises* – Compliance audit on the asset preservation and financial management activities of state-owned (or partly state-owned) enterprises – third phase (ongoing task according to the audit plan for the second half of 2016)
18. *Institutions of the central subsystem* – Compliance and performance audit on the financial and property management of specific institutions of the central subsystem – fourth phase (ongoing task according to the audit plan for the second half of 2016)
19. *Internal control system of local governments* – Compliance audit of the set-up and operation of the internal control system of local governments – sixth phase (ongoing task according to the audit plan for the second half of 2016)
20. Compliance audit of local governments on the basis of financial monitoring (ongoing task according to the audit plan for the second half of 2016)
21. Follow-up audits
22. Compliance and performance audit on major investments (ongoing task according to the audit plan for the second half of 2016)
23. Compliance and performance audit on the child nutrition system
24. Compliance and performance audit on the operation of student unions
25. *Enterprises of local governments* – Compliance audit on the financial management of enterprises in a majority ownership of local governments (fourth phase)
26. *Institutions of the central subsystem* – Compliance and performance audit of the financial and property management of specific institutions of the central subsystem (fifth phase)
27. Compliance audit on the financial and asset management of local governments (third phase)
28. *Financial management of national minority local governments* – Regularity audit on the financial management of national minority local governments (fifth phase)
29. Compliance audit on public bodies (third phase)
30. *Internal control system of local governments* – Compliance audit on the set-up and operation of the internal control system of local governments
31. *Audit on non-governmental human service providers* – Compliance audit on the utilisation of funds granted from the central budget to proprietors of public education and social institutions providing human services outside public finances (third phase)

32. Regularity audit on the financial management of foundations/public foundations (second phase)

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

33. *Execution of the 2016 budget of Hungary* – Compliance audit on the execution of the 2016 central budget of Hungary
34. *Opinion on the 2018 central budget* – Opinion on the 2018 central budget appropriation bill of Hungary
35. Regularity audit on the activities relating to the exercise of proprietary rights over state property (ongoing task according to the audit plan for the second half of 2016)
36. Regularity audit on the legality of the financial management of parties receiving budget subsidies in 2013-2014 (ongoing task according to the audit plan for the second half of 2016)
- 1 Regularity audit on the legality of the financial management of the Hungarian Socialist Party in 2013-2014
37. Regularity audit on the legality of the 2014-2015 financial management of parties receiving budget subsidies (ongoing task according to the audit plan for the second half of 2016)
- 1 Regularity audit on the legality of the financial management of FIDESZ – Hungarian Civic Union in 2014-2015
- 2 Regularity audit on the legality of the financial management of the Christian Democratic People's Party in 2014-2015
- 3 Regularity audit on the legality of the financial management of the Democratic Community of Welfare and Freedom in 2014-2015
38. Regularity audit on the legality of the 2014-2015 financial management of party foundations receiving budget subsidies (ongoing task according to the audit plan for the second half of 2016)
- 1 Regularity audit on the legality of the financial management of the Foundation for a Civic Hungary in 2014-2015
- 2 Regularity audit on the legality of the financial management of the István Barankovics Foundation in 2014-2015
- 3 Regularity audit on the legality of the financial management of the Antall József Foundation in 2014-2015
39. Regularity audit on the accounting for the financial resources allotted to the national referendum held on 2 October 2016
40. Regularity audit on the utilisation of the funds spent on by-elections