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State  
Audit Office

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



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I approve



  
László Domokos

President

Budapest, July, 2017.



Based on the Fundamental Law of Hungary, the State Audit Office of Hungary (SAO) performs its activity independently and operates subordinate to the law and the National Assembly exclusively. It acts according to audit plans approved by the President and within the framework stipulated by Act LXVI of 2011 on the State Audit Office of Hungary. The strategic goal of the SAO is to conduct value creating audits performed on a solid professional basis to contribute to transparency through their planned utilization. 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.

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

The State Audit Office of Hungary contributes to the action against corruption and fraud, in compliance with its strategic goals. **As an important tool thereof, in its audits SAO evaluates the application of the integrity approach.** 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.

If necessary, the SAO supervises, renews its methodologies in order to be able to conduct objective, well utilisable audits with good results, by up-to-date methods and with effective utilisation of resources. The auditing principles of SAO are public and accessible for all stakeholders and those interested.

The SAO, continuing its previous good practice, performs compliance and performance audits. 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. 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. Conforming to the domestic environment, during performance audits, the focus is still on those types of audits, that assure the evaluation of effectiveness.

SAO strives to utilise audit capacities more efficiently by continuously rationalising its audit methods. To this end, it strengthens the audits relying on and related to one another, and pays special attention to the avoidance of duplications and to the continuous flow of information during the planning of audits.

Part of the audits in the second half of 2017 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. Serial audits enable the responsible, regular utilisation of public funds, the facilitation of work-flow and the proactive identification of the arising problems and risks. The SAO creates modular audit programs to its serial audits, in order to be able to perform audits which conform to the special risks of the auditees, which are personalized and that follow a directed audit program. As a result, the SAO audits those, from whom based on the previous risk assessment, the greatest utilisation is expected.

In terms of consistent accounting, the audit on the execution of the budget plays a prominent role. In harmony with that, one of the most important tasks of the second half 2017 is to conclude the audit started in the first half of the year on the execution of the 2016 budget. For the more efficient and effective accomplishment of the task, the SAO carries out this audit according to an audit model supported by statistical methodologies and appropriate for covering the entire management of public finances.

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. According to this, the SAO audits the financial and property management of local governments, as well as their integrity and internal control systems. 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.

**In 2017, SAO continues auditing the auditors, i.e. it examines institutions which perform audit and supervisory activities.** 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 SAO contributes to the strengthening of other 'lines of defence' through its recommendations for the development of the regular operation of auditors. Through this, the SAO participates in establishing more transparency and accountability.

**In order to eliminate the 'blind spots', i.e. the unaudited areas of public financial management, the SAO audits the financial management of public libraries, foundations and the institutions of national minority local governments. The audits of the SAO contribute to the prevailing of integrity approach. In the second half of 2017, within the framework of a synchronized international cooperation among more SAIs, the evaluation of the energy efficacy of public facilities starts.**

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. Within this topic, the yearly evaluation of the activities relating to the exercise of proprietary rights over state property is of priority importance.

**In the second half of 2017, the State Audit of Hungary focuses on the significant investments, and takes their risks into consideration. The SAO's aim is to draw the investors attention to the possible risks, even before the investment is realized. In order to facilitate the effective implementation of investments, the audit covers the application of integrity aspects and the effectiveness of the management.**

When auditing local governments, SAO focuses on fields where it is the most necessary according to the identified risks. The SAO applies the monitoring of data available in the central information system of the Hungarian State Treasury, while auditing local governments. With this method SAO can also involve local governments in the evaluation which it has not audited before. **With its audits based on the evaluation of monitoring reports and the identification of risks having an impact on the financial balance of local governments, SAO contributes to ensuring the sustainability of the financial management and task performance of local governments.** As a result of this audit methodology, the number of audited local governments continuously increase.

Based on its legal mandate, SAO continues to audit the financial management of parties and party foundations receiving budget subsidies in 2017 as well. **On 1. January 2014, the regulation of the partly law concerning prohibited party founding has been modified. According to the new regulation, it is prohibited to accept financial funding from legal entities, from organizations that have no legal entity, from other countries, from foreign organizations and from natural persons with non-hungarian citizenship.** The basic requirement of the regular management is that the party adheres to the relating regulations, which are evaluated during the SAO's audit on the parties.

The protection and development of human resources is essential in the future development of the national economy and preservation of social values. With this in view, 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.

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. In the second half of 2017, the SAO continues its follow-up audits, that provide feedback both to the decision-makers and to the audited institutions. Follow-up audits contribute to the execution of necessary actions and therefore to the improvement in the regularity of public funding.

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. By filling the self-tests these institutions may get a clearer image of which areas of its management, actions, governance and regulation should be further developed. 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.

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## LIST OF 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 first half of 2017)
2. Compliance and performance audit on the financial management of the Hungarian State Treasury (ongoing task according to the audit plan for the first half of 2017)
3. Compliance and performance audit on the measures aiming at the protection of air quality (ongoing task according to the audit plan for the first half of 2017)
4. 6. Compliance audit on public bodies (ongoing task according to the audit plan for the first half of 2017)
5. 2. 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 first half of 2017)
6. 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 first half of 2017)
7. 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 first half of 2017)
8. Internal control system of local governments - Compliance audit of the set-up and operation of the internal control system of local governments - sixth phase (ongoing task according to the audit plan for the first half of 2017)
9. Compliance audit of local governments on the basis of financial monitoring (ongoing task according to the audit plan for the first half of 2017)
10. Follow-up audits (ongoing task according to the audit plan for the first half of 2017)
11. Compliance and performance audit on the child nutrition system (ongoing task according to the audit plan for the first half of 2017)
12. Compliance and performance audit on the operation of student unions (ongoing task according to the audit plan for the first half of 2017)
13. Enterprises of local governments - Compliance audit on the financial management of enterprises in a majority ownership of local governments - fourth phase (ongoing task according to the audit plan for the first half of 2017)
14. Institutions of the central subsystem - Compliance and performance audit on the financial and property management of specific institutions of the central subsystem - fifth phase (ongoing task according to the audit plan for the first half of 2017)
15. Compliance audit on the financial and asset management of local governments - third phase (ongoing task according to the audit plan for the first half of 2017)
16. Compliance audit on public bodies - third phase (ongoing task according to the audit plan for the first half of 2017)
17. Integrity and internal control system of local governments - Compliance audit of the set-up and operation of the internal control system of local governments - sixth phase (ongoing task according to the audit plan for the first half of 2017)
18. 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 (ongoing task according to the audit plan for the first half of 2017)

19. Regularity audit on the financial management of foundations/public foundations - second phase (ongoing task according to the audit plan for the first half of 2017)
20. *Regularity audit* on the debt clearance procedures of local governments - Systems audit on the debt clearance procedures of local governments
21. *Regularity audit of local governments*
22. *Regularity audit of central budget bodies*
23. *Regularity audit of State-owned (or partly state-owned) enterprises*
24. *Regularity audit of enterprises owned (or partly owned) by local governments*
25. *Regularity audit on the regularity of the National Bank of Hungary*
26. *Regularity audit on the operation of public libraries*
27. *Regularity audit on the energy efficiency of public facilities*
28. *Regularity audit on the financial management of national minority local governments*



**AUDITS TO BE CARRIED OUT ANNUALLY, BIANNUALLY BY LAW OR RELATED TO OTHER EVENTS EXECUTION OF THE 2016 BUDGET OF HUNGARY - COMPLIANCE AUDIT ON THE EXECUTION OF THE 2016 CENTRAL BUDGET OF HUNGARY**

29. Execution of the 2016 budget of Hungary - Compliance audit on the execution of the 2016 central budget of Hungary (ongoing task according to the audit plan for the first half of 2017)
30. *Regularity audit on the activities relating to the exercise of proprietary rights over state property*
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32. *Regularity audit on the accounting for the financial resources allotted to the national referendum held on 2 October 2016*  
follow-up audits (ongoing task according to the audit plan for the first half of 2017)
33. Regularity audit on the utilisation of the funds spent on by-elections (ongoing task according to the audit plan for the first half of 2017)
34. *Regularity audit on the legality of the financial management of parties receiving budget subsidies in 2015-2016*
  - 1 Regularity audit on the legality of the financial management of the Hungarian Socialist Party in 2015-2016
  - 2 Regularity audit on the legality of the financial management of the Jobbik Movement for a Better Hungary in 2015-2016
  - 3 Regularity audit on the legality of the financial management of the Politics Can be Different in 2015-2016
  - 4 Regularity audit on the legality of the financial management of the Democratic Coalition in 2015-2016
  - 5 Regularity audit on the legality of the financial management of the Hungarian political party Together in 2015-2016
  - 6 Regularity audit on the legality of the financial management of the Hungarian Liberal Party in 2015-2016
  - 7 Regularity audit on the legality of the financial management of the Dialogue for Hungary in 2015-2016
35. *Regularity audit on the legality of the 2015-2016 financial management of party foundations receiving budget subsidies*
  - 1 Regularity audit on the legality of the financial management of the Mihály Táncsics Foundation in 2015-2016.

- 2 Regularity audit on the legality of the financial management of the Foundation for a  
Crescive Hungary in 2015-2016
- 3 Regularity audit on the legality of the financial management of the Ecopolis Foundation  
in 2015-2016
- 4 Regularity audit on the legality of the financial management of the Foundation for the  
New Republic in 2015-2016
- 5 Regularity audit on the legality of the financial management of the Together for  
Hungary Foundation in 2015-2016
- 6 Regularity audit on the legality of the financial management of the Foundation for the  
Liberal Hungary in 2015-2016
- 7 Regularity audit on the legality of the financial management of the Foundation for the  
Renewing Hungary in 2015-2016