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The Audit Planning Memorandum of the State Audit Office of
Hungary for the First Half of 2018

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Hungary for the First Half of 2018

Approved by:

László Domokos
Chairman

Budapest, December 2017

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Introduction

Based on its independence stipulated by the Fundamental Law, the State Audit Office of Hungary (SAO) is subordinated only to law. The State Audit Office of Hungary performs its activity according to audit planning memorandums approved by the Chairman, within the framework stipulated by Act LXVI of 2011 on the State Audit Office of Hungary. The SAO's strategic objective is to facilitate transparency and accountability in the financial management of public funds and public property by means of its value creating audits, performed on a solid professional basis, and the planned utilisation thereof. To this end, the SAO supports the responsible public administration that entails consequences and enforces the laws, thus contributing to the transparency and order of public funds and the implementation of 'good governance'.

The public disclosure of the audit planning memorandum of the State Audit Office of Hungary is one of the cornerstones of the transparent operation of the SAO. The SAO prepares its audit planning memorandum with the method of rolling planning. The planning memorandum is published and submitted to the National Assembly every six months. The SAO continuously develops its audit planning system, keeping the purpose of supporting the selection of audit subjects that are relevant or of public interest in mind. Planning is based on the continuous collection, processing and analysis of information necessary for the selection of audit topics. The audit planning memorandum is elaborated with the fundamental goal in view, that the selection of audit topics, the audit approach and the findings of audits shall provide the most possible added value to the society.

In harmony with its strategic objectives, the State Audit Office of Hungary plays an active role in the fight against corruption and fraud. Integrity or ethical conduct and operation is a cornerstone of good governance, also supporting the maintenance of confidence in government and the prevention of corruption. The State Audit Office of Hungary considers to be one of its most important tasks to formulate and spread the integrity approach; as an important tool thereof, the SAO itself has already implemented into its audits the application of integrity approach, evaluated on the basis of audit evidence. The decision of the National Assembly, accepting the SAO's report, declared that the SAO participates in the identification and application of the efficient and effective means of the fight against corruption risks and corruption as well as in the diffusion of their use, and consequently, in formulating the integrity-based administrative culture.

If necessary, the SAO will review and renew its applied methodology as well, in order to be able to conduct resource-efficient audits by using state of the art methods, that provide objective and useful results. The basic auditing principles of the SAO are public and accessible for all stakeholders and those interested, thus ensuring the transparency of the SAO's activity. In line with the provisions of the Fundamental Law, the SAO shall ensure the public and transparent accounting for the management of public funds by all organisations entitled to manage public funds and the management of public funds and national assets in accordance with the principles of transparency and the purity of public life. In the course of our audits, we called the audited entities to account for the above in each case.

In 2018, the SAO carries out audits according to compliance and performance audit methodologies, based on the experiences gained in the previous period. The basic principles of compliance auditing provide a solid and broad background for the responsible, transparent and accountable use 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 financial management of public funds and national assets.

In the first half of 2018, organisation-specific processes will form a particular part of the audit, which are conducted by the SAO in a specific topic, in the same field for several years, according to continuously renewed and updated audit plans, by certain groups of organisations closely related to, but falling outside of the scope of public finances and in various, relevant sub-areas of public finances.

The organisation-based audits are based on modular audit plans established by the SAO to enable the conduction of targeted audits adjusted to the specific risk-levels of the auditees. Consequently, the SAO is able to focus the audit on those facts and areas that are the most promising from the aspect of usefulness, pursuant to the preliminary risk analysis.

In order to conduct efficient and practical audits, in the first half of 2018, the local governments, central budgetary institutions, state-owned and local government-owned business associations will be audited by the use of modules adjusted to the specific and significant risks typical of the selected auditees, as established in the course of the preliminary risk analyses. The SAO may use the integrity, internal control, finances, property management, significant investments and performance audit modules in the course of the audit of each of the listed bodies. The local government modules are supplemented with a module aimed at the evaluation of the regularity and adequacy of investment decisions. In the case of central budgetary institutions, the evaluation of middle management bodies may also take place through the audit on the administration, financial management and property management duties by the SAO.

Fulfilling its statutory obligation established by the SAO Act, the State Audit Office of Hungary compiles its opinion on the 2019 central budget bill of Hungary. The SAO's opinion comments on the specific state of budgetary planning from the aspect of the substantiation and feasibility of collection of revenues, the reasonability of expenditures and compliance with the laws and regulations. The purpose of the SAO's comments is to enable the National Assembly (by the codification of missing acts or acceptance of amendment proposals) to adopt a budget that is substantiated and capable of managing the risks that may realistically arise upon passing new laws and adopting amendments.

In order to ensure the transparency of the use of public funds, the audit on the final accounts prepared of the implementation of the central budget is of primary importance. In harmony with that, one of the most important tasks in the year 2018 is to complete the audit on the implementation of the 2017 central budget. In order to carry out the task efficiently and successfully, the SAO performs the audit in accordance with an audit model suitable to cover the whole management of public finances, based on a methodology supported by statistical methods.

The SAO audits the financial and property management, as well as of the integrity and internal control system of local governments. Within the scope of the audit of local governments, the SAO also performs the monitoring of the data available in the central database of the State Treasury. By using this method, the 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 equilibrium of local governments, the SAO contributes to ensuring the sustainability of the financial management and task performance of local governments.

The audit on the financial management of business associations owned 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.

The State Audit Office of Hungary has a broad audit mandate: it is also entitled to revise the financial management activities and operation of organisations that have supervisory or audit powers themselves. As a result of these audits, the SAO is able to maximise its contribution to the establishment of a regular, responsible and disciplined financial management of public funds, as the results and findings of the

SAO's audits (by increasing the regularity, efficiency and transparency of the activity of the supervisors) may indirectly be utilised in the operation of the entities supervised by the audited organisations.

In the first half of 2018, the SAO is about to start the audit of the State Treasury (as audit organisation). The target of the audit is to evaluate whether the State Treasury performed its own audit assignments in compliance with the respective laws and regulations, as well as whether it completed the control of financial aids provided to entities outside of the general government adequately. The National Tax and Customs Administration is audited from the aspect of the regularity and legal compliance of certain activities related to corporate income tax (processing of tax reports, planning and execution of audits, management of outstanding debts, the collection of residues, data provisions), the establishment and the adequacy of the operation of internal control mechanisms. As a new subject, the SAO has involved the system of public education into the scope of audit.

The assets of state property play primary role in the appropriate performance of the state's duties and the provision of public services. The preservation of the value and the expansion of state property, as well as the lawful management thereof are statutory tasks of key importance of all public institutions. Therefore, auditing the financial and property management of the assets of state property within the scope of public finances and the activities of organisations aimed at the maintenance and increase of property value is of pivotal importance. Within this topic, the yearly evaluation of the activities relating to the exercise of proprietary rights over state property (performed as a legal obligation) is of primary importance.

As a new subject in the SAO's scope of audit, the evaluation of the operation and financial management of the National Media and Infocommunication Authority is to start in 2018. The authority will be evaluated from the aspect of the establishment and operation of the internal control system and the regularity of financial and property management.

The audit of the emergency medical service provider system by the SAO is intended to reveal whether the system is suitable to fulfil its role and achieve its statutory goals, whether the organisation and regularity thereof is suitable to ensure the uninterrupted provision of and the enforcement of the principle of equal access to medical services and the reduction of regional disparities.

The audit of Magyar Villamos Művek Zrt., to be started in 2018, shall cover the evaluation of the adequacy of strategic control and monitoring activities over the business organisations owned by Magyar Villamos Művek Zrt. as a holding centre. The strategic planning and decision-making, the supervision of group members and the centralised financial-monetary and property management activities of the holding will also be evaluated.

The SAO will continue the audit of the institutional system involved in the preservation and transmission of cultural assets and values. Following the completed and/or commenced audit of theatres, town museums with county rights and public libraries, the public collections will also be subjects of audits from 2018. The cultural assets kept by the public collections maintained by the state or local governments (museology institutions, public archives, video and sound archives operated as public collections and libraries) belong to the scope of national assets. The measures taken with the aim of preservation and expansion of the cultural assets, as well as the maintenance of the good condition and the proper utilisation thereof are of primary importance; hence, the SAO is to start audits in the first half of 2018 to evaluate the adequacy of the management of cultural property.

The SAO will continue the audit of foundations and public foundations in 2018. The basic target of the SAO's audit is to assess whether the foundation or public foundation observed the relevant legislation

in the course of its financial management and used the budget subsidies according to the respective requirements.

Based on its legislative authorisation, the SAO continues to audit the financial management of parties and party foundations receiving budget support in 2018 as well.

The SAO audits are to point out whether the audited entities comply with the accounting rules of public finances. During its audits, the SAO continues to focus on integrity and the internal control system, the appropriate functioning of which is a prerequisite for the regular, responsible, economical, efficient and sound financial management of public funds and national assets.

The SAO continues to pursue follow-up audits in 2018, to assess whether the audited entity implemented the tasks determined in the action plan made in accordance with the findings requiring actions included in the audit report. This allows the realisation of the principle of audit entailing actual consequences. The institution's follow-up audit is usually performed within the frameworks of independent audit plans. These audits are to assess if the soundness of public funds has been improved and the national assets have been properly protected, expanded and preserved.

In order to promote the efficient and disciplined management of public finances, the SAO also prepared voluntary self-tests to support the regular operation of organisations and institutions managing public funds. By filling out such voluntary self-test, the organisation can get information concerning the fields in respect of which its financial management, controlling and regulatory activities may be improved. Self-tests can be downloaded from the website of the SAO.

LIST OF AUDIT SUBJECTS

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

1. *Compliance and performance audit on the financial management of the Hungarian State Treasury* (ongoing task according to the audit planning memorandum for the second half of 2017, audit subject serial no. 2)
2. *Compliance and performance audit on the measures aiming at the protection of air quality* (ongoing task according to the audit planning memorandum for the second half of 2017, audit subject serial no. 3)
3. *Business associations of local governments – Compliance audit on the financial management of enterprises in the majority ownership of local governments* (fourth phase; ongoing task according to the audit planning memorandum for the second half of 2017, audit subject serial no. 6)
4. *State-owned business associations – Compliance audit on the asset preservation and financial management activities of state-owned (or partly state-owned) economic organisations* (third phase) – (ongoing task according to the audit planning memorandum for the second half of 2017, audit subject serial no. 7)
5. *Financial monitoring audit of local governments* (ongoing task according to the audit planning memorandum for the second half of 2017, audit subject serial no. 9)
6. *6/1. Follow-up audits* (ongoing task according to the audit planning memorandum for the second half of 2017, audit subject serial no. 10)
6/2. Follow-up audit (second phase)
7. *Audit on child nutrition system* (ongoing task according to the audit planning memorandum for the second half of 2017, audit subject serial no. 11)
8. *Audit on the state-owned institutions of higher education from the aspect of student unions* (ongoing task according to the audit planning memorandum for the second half of 2017, audit subject serial no. 12)
9. *Business associations of local governments – Compliance audit on the financial management of enterprises in the majority ownership of local governments* (fourth phase); (ongoing task according to the audit planning memorandum for the second half of 2017, audit subject serial no. 13)
10. *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 planning memorandum for the second half of 2017, audit serial no. 14)
11. *Compliance audit on the financial and property management of local governments* (third phase; ongoing task according to the audit planning memorandum for the second half of 2017, audit subject serial no. 15)
12. *Audit of public bodies* (third phase) (ongoing task according to the audit planning memorandum for the second half of 2017, audit subject serial no. 16)
13. *Integrity and internal control system of local governments – Audit on the establishment and operation of the local governments' internal control system*
14. *Audit on non-governmental human service providers – Compliance audit on the use 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 planning memorandum for the second half of 2017, audit subject serial no. 18)

15. *Audit on the financial management of foundations/public foundations* (second phase) (ongoing task according to the audit planning memorandum for the second half of 2017, audit subject serial no. 19)
16. *Audit of local governments* (ongoing task according to the audit planning memorandum for the second half of 2017, audit subject serial no. 21)
17. *Audit on the regularity of the Magyar Nemzeti Bank* (ongoing task according to the audit planning memorandum for the second half of 2017, audit subject serial no. 25)
18. *Performance audit on public library supply* (ongoing task according to the audit planning memorandum for the second half of 2017, audit subject serial no. 26)
19. *Audit on the energy-efficiency of public buildings* (ongoing task according to the audit planning memorandum for the second half of 2017, audit subject serial no. 27)
20. *Audit of central budgetary institutions* (ongoing task according to the audit planning memorandum for the second half of 2017, audit subject serial no. 22)
21. *Audit of state-owned business associations*
22. *Audit on the financial management of institutions maintained by local governments of minorities organised on a national level* (ongoing task according to the audit planning memorandum for the second half of 2017, audit subject serial no. 28)
23. *Audit on the control activity of the Hungarian State Treasury*
24. *Performance audit on the National Tax and Customs Administration's duties related to corporate income tax*
25. *Audit of National Media and Infocommunication Authority*
26. *Audit of Magyar Villamos Művek Zrt.*
27. *Audit on asset management related to state-owned cultural assets*
28. *Audit on financial management of foundations/public foundations* (third phase)
29. *Audit on emergency medical service provider system*
30. *Audit on the monitoring system of public education*
31. *Performance audit on the proprietary and ownership duties of budgetary institutions*

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

32. *Final accounts of the 2017 budget of Hungary* – Compliance audit on the implementation of the 2017 central budget of Hungary
33. *Opinion on the 2019 central budget – Opinion on the 2019 central budget bill of Hungary*
34. *Regularity audit on the activities relating to the exercise of proprietary rights over state property* (ongoing task according to the audit planning memorandum for the second half of 2017, audit subject serial no. 30)
35. *Review of the local government decree on revenues due to and shared by the Budapest Municipality and the Budapest district local governments in 2017* (ongoing task according to the audit planning memorandum for the second half of 2017, audit subject serial no. 31)
36. *Regularity audit on the accounting for the financial resources allotted to the national referendum held on 2 October 2016* (ongoing task according to the audit planning memorandum for the second half of 2017, audit subject serial no. 32)
37. *Regularity audit on the use of funds allotted to by-elections* (ongoing task according to the audit planning memorandum for the second half of 2017, audit subject serial no. 33)
38. *Financial regularity audit on the legality of the 2015–2016 financial management of party foundations receiving budget subsidies* (ongoing task according to the audit planning memorandum for the second half of 2017, audit subject serial no. 35)
 - 1 Financial regularity audit on the legality of the 2015–2016 financial management of Táncsics Mihály Foundation
 - 2 Financial regularity audit on the legality of the 2015–2016 financial management of 'Jobbik Magyarországért (Gyarapodó Magyarországért) Alapítvány' (Foundation for a Better Hungary (For a Growing Hungary)
 - 3 Financial regularity audit on the legality of the 2015–2016 financial management of Ökopolisz Foundation
 - 4 Financial regularity audit on the legality of the 2015–2016 financial management of 'Új Köztársaságért Alapítvány' (Foundation for a New Republic)
 - 5 Financial regularity audit on the legality of the 2015–2016 financial management of 'Váradi András (Együtt Magyarországért) Alapítvány' (Váradi András (Together for Hungary) Foundation)
 - 6 Financial regularity audit on the legality of the 2015–2016 financial management of 'Liberális Magyarországért Alapítvány' (Foundation for a Liberal Hungary)
 - 7 Financial regularity audit on the legality of the 2015–2016 financial management of 'Megújuló Magyarországért Alapítvány' (Progressive Hungary Foundation)