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SZÁMVEVŐSZÉK

**TV-0997-001/2018.**

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

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Approved by:

László Domokos  
Chairman

Budapest, July 2018

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## *Introduction*

The State Audit Office of Hungary is the supreme financial and economic audit organisation of the National Assembly, authorised by the respective laws and regulations to audit the execution of the central budget, the management of public finances, the use of sources from public funds and the management of national assets. The detailed organisational and operational rules of the SAO are included in Act LXVI of 2011 on the State Audit Office of Hungary. The SAO shall pursue its activity with full compliance with the Fundamental Law and the prevailing laws and regulations. The mission of the SAO is to promote the transparency of public funds through value creating audits, performed on a solid professional basis, thus contributing to good governance, in accordance with requirements defined in the Fundamental Law of Hungary.

The SAO pursues its audits on the basis of the audit planning memorandum approved by its Chairman. The SAO prepares its audit planning memorandum with the method of rolling planning. In order to ensure the transparency of its activity, the planning memorandum is published and submitted to the National Assembly every six months.

The SAO continuously improves its *audit planning system*, 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. Furthermore, in order to improve the quality and increase the efficiency of audits, the selection of audit subjects is based on risk assessment and risk analysis. In addition to the above, in the course of the selection of audit subjects, the SAO pays particular attention to topics that are relevant and of public interest, or that have long-term significance and economic importance from the aspect of the decision-making of the National Assembly and the strategic plans of the Government.

If necessary, the SAO will review and renew its applied *methodologies* as well, in order to be able to conduct efficient and high-quality audits of added value, that provide useful results. In the course of renewal of its methodology in 2018, the SAO puts emphasis on the audit of definiteness of efficiency requirements related to the use of public funds. In the professional opinion of the SAO, the use of public funds meets the legal requirements of transparency and efficiency if such use is retroactively ponderable and expedient on the basis of the predetermined efficiency criteria.

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 harmony with its strategic objectives, the State Audit Office of Hungary plays an active role in the fight against and in the handling of corruption and fraud by applying successful and efficient methods, furthermore, in the identification of corruption risks and, consequently, in the establishment of an integrity-based culture of public administration. The same integrity approach is also implemented in the audits of the SAO.

The SAO's audit planning memorandum for the second half of 2018 includes regularity, compliance and performance audit as well. 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.

*The audit planning memorandum prepared in respect of the second half of 2018* contains the audits started in the first half of 2018 and are still ongoing (carried over from the previous period), as well as the audits to be started in the second half of 2018. In the second half of 2018, a particular part of the

audits are organisation-specific processes, which are conducted by the SAO in a specific topic in the same field for several years and according to the continuously renewed and updated 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. In order to conduct risk analysis-based audits of the highest possible usefulness, the SAO prepares targeted modular audit plans, adjusted to the specific risks attributed to the audited entities as well.

In the second half of 2018, the audit of the national (state- and local government-owned) *business associations* is also to be continued, as the financial management of these entities has a significant influence on the value of national assets, the country's economic performance and the public debt.

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 did not audit in the previous period. 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 *follow-up audits* of the SAO will also be continued in the second half of 2018. Follow-up audits are aimed at the evaluation of the implementation of action plans, prepared for the utilisation of the findings, requiring measures to be taken, formulated in audit reports. The follow-up audits enable the investigation of whether the errors and deficiencies revealed in the course of the audit on the management of public property are abolished, and the expansion and protection of national assets are taken care of.

In order to conduct efficient and practical audits, in the second 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, financial management, 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 adequacy of investment decisions, the regularity of the debt settlement procedure, as well as a regularity module for the evaluation of institutional performance. In the case of central budgetary institutions, the evaluation of middle management bodies may also take place; in the course thereof, the administration, financial management and property management duties and the use of the balance are also audited by the SAO.

In order to facilitate the lawful, responsible and efficient management of public property, in the second half of 2018 the SAO will continue the audit of financial management and operation of institutions that have monitoring and supervisory powers themselves. Particular attention will be paid by the SAO to the audits aimed at the strengthening of *the second line of defence*; in this scope, the performance audit (including, among others, the performance of audit and monitoring duties) of the Hungarian State Treasury, the National Tax and Customs Administration, the Magyar Nemzeti Bank and the controlling bodies is pursued.

The target of the performance and compliance audit of the monitoring duties of the *Hungarian State Treasury* by the SAO is to evaluate whether the State Treasury performed its own audit activities 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. Also the financial management of the Magyar Nemzeti Bank, acting as the second line of defence in the monetary sector, will be audited.

The audit planning memorandum of the SAO still covers the audit of foundations and public foundations, to increase the transparency in the financial management thereof, as well as in the use of budget supports.

As a new subject of 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 the second half of 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 first phase of the audit of the *'emergency' medical service provider system* by the SAO is aimed at the assessment whether the goals of the organised *'emergency'* medical service provision (as a public service) were achieved in the opinion of the controlling body, and whether the users were satisfied with the medical services provided. The second phase is to check the regularity of the performance of controlling, maintenance and healthcare organisation duties in the emergency medical service provider system, and the performance audit of service providers.

The audit of *Magyar Villamos Művek Zrt.* 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.

To ensure the protection of the value, the expansion, the preservation of the good condition and the proper utilisation of national assets falling in the scope of cultural property, the SAO will continue to audit the operation of owners, the sectoral controllers and supervisory bodies, as well as the operation of *public library supply*. 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; hence, 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. The necessity of audits in the field is also supported by the risk assessment and risk analysis prepared, as well as the specific scope of assets managed by public libraries.

In the second half of 2018, the SAO will start a new audit to examine the measures taken *to survey the people living below the poverty threshold* to implement the goals of sustainable development, being a primary mission of the SAO.

In order to ensure the transparency of the use of public funds, *the audit of the final accounts* prepared of the execution of the central budget is of primary importance. Accordingly, one of the most important assignments for the second half of 2018 is the audit of the execution of the central budget of 2017. 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.

Therefore, auditing the financial and asset 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 subject the yearly evaluation of the activities relating to the exercise of proprietary rights over state property (performed as a legal obligation) is highlighted.

Based on its legal mandate, in the second half of 2018 the SAO will start to regulatory and compliance audit on *the settlement of funds allotted to the parliamentary election campaign in 2018*, and continue to audit the financial management of political parties and party foundations receiving budget subsidies.

The SAO audits are to establish whether the audited entities comply with the accounting rules of public finances. During its audits, the SAO continues to pay particular attention to the mapping of integrity and the operation of 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.

In order to promote the transparent, accountable and disciplined management of public properties and the facilitation of the integrity-based use of public funds, 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.

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



# LIST OF AUDIT SUBJECTS

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

1. *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 first half of 2018, audit subject serial no. 3)
2. *State-owned business associations – Compliance audit on the asset preservation and financial management activities of state-owned/partly state-owned economic organisations* (third phase; ongoing task according to the audit planning memorandum for the first half of 2018, audit subject serial no. 4)
3. *Financial monitoring audit of local governments* (ongoing task according to the audit planning memorandum for the first half of 2018, audit subject serial no. 5)
4. *Follow-up audits* (second phase; ongoing task according to the audit planning memorandum for the first half of 2018, audit subject serial no. 6/2)
5. *Audit on child nutrition system* (ongoing task according to the audit planning memorandum for the first half of 2018, audit subject serial no. 7)
6. *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 first half of 2018, audit subject serial no. 8)
7. *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 first half of 2018, audit serial no. 10)
8. *Compliance audit on the financial and property management of local governments* (third phase; ongoing task according to the audit planning memorandum for the first half of 2018, audit subject serial no. 11)
9. *Integrity and internal control system of local governments – Audit on the establishment and operation of the local governments' internal control system* (ongoing task according to the audit planning memorandum for the first half of 2018, audit subject serial no. 13)
10. *Audit of public bodies* (third phase; ongoing task according to the audit planning memorandum for the first half of 2018, audit subject serial no. 12)
11. *11/1. 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 first half of 2018, audit subject serial no. 14)  
*11/2. Audit on non-governmental human service providers – Compliance audit on the utilisation of funds granted from the central budget to proprietors of social institutions providing human services outside public finances* (fourth phase)

12. *12/1. Performance audit on public library supply* (ongoing task according to the audit planning memorandum for the first half of 2018, audit subject serial no. 18)  
*12/2. Performance audit on public library supply* (second phase)
13. *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 first half of 2018, audit subject serial no. 22)
14. *Audit on the energy-efficiency of public buildings* (ongoing task according to the audit planning memorandum for the first half of 2018, audit subject serial no. 19)
15. *Audit of local governments* (ongoing task according to the audit planning memorandum for the first half of 2018, audit subject serial no. 16)
16. *Audit of central budgetary institutions* (ongoing task according to the audit planning memorandum for the first half of 2018, audit subject serial no. 20)
17. *Performance audit of proprietary and ownership duties of central budgetary institutions* (ongoing task according to the audit planning memorandum for the first half of 2018, audit subject serial no. 31)
18. *18/1. Audit on the financial management of foundations/public foundations* (second phase; ongoing task according to the audit planning memorandum for the first half of 2018, audit subject serial no. 15)  
*18/2. Audit on the financial management of foundations/public foundations* (third phase; ongoing task according to the audit planning memorandum for the first half of 2018, audit subject serial no. 28)
19. *Audit of state-owned business associations* (ongoing task according to the audit planning memorandum for the first half of 2018, audit subject serial no. 21)
20. *Audit on the control activity of the Hungarian State Treasury* (ongoing task according to the audit planning memorandum for the first half of 2018, audit subject serial no. 23)
21. *Performance audit on the National Tax and Customs Administration's duties related to corporate income tax* (ongoing task according to the audit planning memorandum for the first half of 2018, audit subject serial no. 24)
22. *Audit of the National Media and Infocommunication Authority* (ongoing task according to the audit planning memorandum for the first half of 2018, audit subject serial no. 25)
23. *Audit of Magyar Villamos Művek Zrt* (ongoing task according to the audit planning memorandum for the first half of 2018, audit subject serial no. 26)
24. *Audit on the asset management related to state-owned cultural assets* (ongoing task according to the audit planning memorandum for the first half of 2018, audit subject serial no. 27)
25. *Audit of the 'emergency' medical service provider system* (ongoing task according to the audit planning memorandum for the first half of 2018, audit subject serial no. 29)
26. *Audit of the monitoring system of public education* (ongoing task according to the audit planning memorandum for the first half of 2018, audit subject serial no. 30)
27. *Audit on the measures taken to improve the circumstances of people living below the*

*poverty threshold*

28. *Audit on the integrity of the local governments of villages and town, and the institutions thereof*
29. *Audit on the integrity of business associations in the majority ownership of the state or a local government*
30. *Regularity audit on the operation of the Magyar Nemzeti Bank*

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

31. *Final accounts of the 2017 budget of Hungary* – Compliance audit on the execution of the 2017 central budget of Hungary (ongoing task according to the audit planning memorandum for the first half of 2018, audit subject serial no. 32)
32. *Regularity audit on the activities related to the exercise of proprietary rights over state property*
33. *Review of the local government decree on revenues due to and shared by the Budapest Municipality and the Budapest district local governments in 2018*
34. *Audit of campaign expenditures* – Audit on the settlement of monetary funds spent on the parliamentary election campaign in 2018, to be conducted by the Hungarian State Treasury and by individual candidates
35. *Audit of campaign expenditures* – Audit on the settlement of monetary funds spent on the parliamentary election campaign in 2018, to be conducted by the nominator organisations
36. *Financial regularity audit on the legality of the 2016–2017 financial management of political parties receiving budget subsidies*
  - 36/1. Financial regularity audit on the legality of the 2016–2017 financial management of FIDESZ – Hungarian Civic Union
  - 36/2. Financial regularity audit on the legality of the 2016–2017 financial management of the Christian Democratic People’s Party
37. *Financial regularity audit on the legality of the 2016–2017 financial management of party foundations receiving budget subsidies*
  - 37/1. Financial regularity audit on the legality of the 2016–2017 financial management of ‘Szövetség a Polgári Magyarorszáért Alapítvány’ (Foundation for a Civic Hungary)
  - 37/2. Financial regularity audit on the legality of the 2016–2017 financial management of Barankovics István Foundation