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The Audit Planning Memorandum of the State Audit Office of
Hungary for the First Half of 2019

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The Audit Planning Memorandum of the State Audit Office of
Hungary for the First Half of 2019

Approved by:

László Domokos
Chairman

Budapest, December 2018

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Introduction

The State Audit Office of Hungary (SAO) is the supreme financial and economic audit organisation of the National Assembly, an institution of fundamental guarantee for a democratic federal system.

The detailed organisational and operational rules as well as the duties of the SAO are included in Act LXVI of 2011 on the State Audit Office of Hungary. The SAO shall pursue its activity in accordance with the respective audit planning memorandums, approved by its Chairman. The transparency of the SAO's operation is ensured by the publicity of its audit planning memorandum, which is prepared and submitted to the National Assembly in every six months. The independence of the SAO is granted by the Fundamental Law and Act LXVI of 2011 on the State Audit Office of Hungary. The duties of the State Audit Office of Hungary cover the audit of the central budget implementation, the management of public finances, the use of sources from public funds and the management of national assets. The SAO uses the experience gained in the course of its audits to support the legislative activity of the National Assembly.

The strategy of the SAO declares its mission to be the promotion of the transparency of public finances and the efficient and practical use of public funds and public property, as well as the support of the operation of a '*well-managed state*' by value-creating audits performed on a solid professional basis.

The SAO is entitled to set up the rules and methods of audit as a cornerstone of its independence. The SAO renews its audit methodologies continuously, considering practical experience and international methodological developments, standards and recommendations.

In order to enforce the principles defined in the Fundamental Law, the SAO puts emphasis on the responsible and diligent management of public funds and public property, the accountability, transparency, the exemption from material errors and the prevention of the loss of assets. The audits performed by the SAO allows the strengthening of its added value-creating activity and counselling role.

In the first half of 2019, the SAO shall perform audits by using the methods of regularity, compliance and performance control, to ensure the responsible, transparent and accountable use of public funds. The basic principles of regularity and compliance audit provide a solid and broad professional background to the audit activities. The performance audit of the SAO contributes to the observance of the principles of effectiveness and efficiency in the financial management of public funds and national assets.

In order to conduct efficient and practical audits, in the first half of 2019, the local governments, central budgetary institutions, state-owned and local government-owned business associations will be audited by the use of *subject-specific plan units* 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 regularity of investment decisions and the debt settlement procedure, as well as with a regularity module for the evaluation of institutional performance. In the case of central budgetary institutions, the audit 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.

The second part of the audit planning memorandum presents the audits prescribed by the laws to be carried out annually, biannually, or those related to other events. In the first half of 2019, 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, according to the continuously renewed 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 puts primary emphasis on the preparation of targeted modular audit plans, adjusted to the specific risks attributed to the audited entities as well. The audit findings may be useful information for the legislative bodies, the society, the audited entities and the SAO itself.

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 first half of 2019. Follow-up audits are aimed at the evaluation of the implementation of action plans, prepared for the utilisation of the findings of 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.

The performance audit of duties related to the *child nutrition system* is also to be continued. Child nutrition is in the focal point of the society's interest, due partially to the vast number of concerned and the significant amount of public funds involved, and partially to the importance of the safeguarding of health by the provision of food and nutrition in an age-adjusted quantity and quality, suitable to the children.

The SAO will continue the audit of *foundations and public foundations* in line with the audit planning memorandum. Pursuant to its statutory mandate, the SAO is entitled to audit foundations and public foundations that have received subsidies or funds granted free of charge for specific purposes from public finances. The SAO, by performing the audit of the budget support granted to entities outside the state budget and gratuitous transfer of assets ensures the transparent use of public funds by non-governmental organisations as well.

In the first half of 2019, 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.

In order to facilitate the lawful, responsible and efficient management of public property, in the first half of 2019 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 National Tax and Customs Administration, the Magyar Nemzeti Bank and the controlling bodies is pursued.

The *National Tax and Customs Administration* will be 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 operation of the internal control mechanisms. In addition, the recording, data provision and control activity of the National Tax and Customs Administration is to be evaluated in relation to the tax advantages applicable in respect of corporate income taxes. The *follow-up audit* shall cover the audit of the implementation

of tasks defined in the action plan relate to the SAO's audit report prepared on the IT systems of the National Tax and Customs Administration.

Also, the financial management of the Magyar Nemzeti Bank, acting as the second line of defence in the monetary sector, will be audited from the aspect of meeting the criteria of lawful operation and the regularity of settlements related to the central budget.

The evaluation of the operation and financial management of the *National Media and Infocommunication Authority* is to be continued in the first half of 2019. 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 *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.

A basic criterion of the performance of public duties is the responsible financial management of state property. 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. 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.

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 next phase is to perform the regularity audit of the performance of controlling-, maintenance- and healthcare-related organisational duties in the emergency medical service provider system, and the performance audit of medical service providers.

In the field of public education, the SAO's activity may contribute to the raising of awareness to and the strengthening of the principle of responsible financial management. The audit of *the control system of public education* is to strengthen the counselling role and the added value-creating activity of the SAO.

The audit plan of the SAO, carried over from the second half of 2018, is targeted at the audit of the achievement of the goals of the strategies and planned measures implemented *to improve the circumstances and of people living below the poverty threshold.*

In the first half of 2019, the *National Fund of Family and Social Policy Affairs* is to be audited. The audit is to evaluate whether the control mechanisms in the fields of family subsidies and finances have been established and operated adequately and whether the government offices have taken the measures prescribed by previous SAO audits to abolish the deficiencies experienced in respect of family subsidies.

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.

In order to ensure the transparency of the use of public funds, *the audit of the final accounts* prepared of the implementation of the central budget is of primary importance. Accordingly, one of the most important assignments for the first half of 2019 is the audit of the implementation of the central budget of 2018. 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. Such audit shall cover the examination of the use of state subsidies provided to the preparation and the execution of parliamentary elections in 2018.

Based on its legislative authorisation, the SAO continues to audit the financial management of *political parties and party foundations receiving budget support*.

The SAO audits pay primary attention to the establishment 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 an 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 supports the integrity-based use of public funds by voluntary self-tests, by the completion of which, the organisations can get information concerning the fields in respect of which their financial management, controlling and regulatory activities may be improved. Self-tests can be downloaded from the website of the SAO.

A primary strategic aim of the SAO is that the utilisation of its audit activity 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. *Financial monitoring audit of local governments* (ongoing task according to the audit planning memorandum for the second half of 2018, audit subject serial no. 3)
2. 2/1 *Follow-up audits* (second phase; ongoing task according to the audit planning memorandum for the second half of 2018, audit subject serial no. 4)
2/2. *Follow-up audits* (third phase)
3. *Audit on child nutrition system* (ongoing task according to the audit planning memorandum for the second half of 2018, audit subject serial no. 5)
4. 4.1 *Audit of public bodies* (third phase; ongoing task according to the audit planning memorandum for the second half of 2018, audit subject serial no. 10)
4/2. *Audit of public bodies* (fourth phase)
5. 5/1. *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 second half of 2018, audit subject serial no. 11/1)
5/2. *Audit on non-governmental human service providers* – Compliance audit on the use of funds granted from the central budget to proprietors of social institutions and service providers providing human services outside public finances (fourth phase; ongoing task according to the audit planning memorandum for the second half of 2018, audit subject serial no. 11/2)
6. *Performance audit on public library supply* (ongoing task according to the audit planning memorandum for the second half of 2018, audit subject serial no. 12/2)
7. *Audit of local governments* (ongoing task according to the audit planning memorandum for the second half of 2018, audit subject serial no. 15)
8. *Audit of central budgetary institutions* (ongoing task according to the audit planning memorandum for the second half of 2018, audit subject serial no. 16)
9. *Performance audit of proprietary and ownership duties of central budgetary institutions* (ongoing task according to the audit planning memorandum for the second half of 2018, audit subject serial no. 17)
10. 10/1. *Audit on the financial management of foundations/public foundations* (third phase; ongoing task according to the audit planning memorandum for the second half of 2018, audit subject serial no. 18/2)
10/2. *Audit on financial management of foundations/public foundations* (fourth phase)
11. 11/1. *Audit of state-owned business associations* (ongoing task according to the audit planning memorandum for the second half of 2018, audit subject serial no. 19)

11/2. Audit of state-owned business associations

12. *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 second half of 2018, audit subject serial no. 21)
13. *Audit of the National Media and Infocommunication Authority* (ongoing task according to the audit planning memorandum for the second half of 2018, audit subject serial no. 22)
14. *Audit of Magyar Villamos Művek Zrt* (ongoing task according to the audit planning memorandum for the second half of 2018, audit subject serial no. 23)
15. *Audit on the asset management related to state-owned cultural assets* (ongoing task according to the audit planning memorandum for the second half of 2018, audit subject serial no. 24)
16. *Audit of the 'emergency' medical service provider system* (ongoing task according to the audit planning memorandum for the second half of 2018, audit subject serial no. 25)
17. *Audit of the monitoring system of public education* (ongoing task according to the audit planning memorandum for the second half of 2018, audit subject serial no. 26)
18. *Audit on measurements taken to improve the life quality of people living below the poverty threshold* (ongoing task according to the audit planning memorandum for the second half of 2018, audit subject serial no. 27)
19. *Regularity audit on the operation of the Magyar Nemzeti Bank* (ongoing task according to the audit planning memorandum for the second half of 2018, audit subject serial no. 30)
20. *Audit on the integrity of local governments of villages and towns* (ongoing task according to the audit planning memorandum for the second half of 2018, audit subject serial no. 28)
21. *Audit on the integrity of business associations in the majority ownership of the state or a local government* (ongoing task according to the audit planning memorandum for the second half of 2018, audit subject serial no. 29)
22. *Audit of the National Fund of Family and Social Policy Affairs*

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

23. 23/1. *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 2018, audit subject serial no. 32)
- 23/2. *Regularity audit on the activities related to the exercise of proprietary rights over state property*
24. *Regularity audit on the legality of the 2016–2017 financial management of political parties receiving budget subsidies* (ongoing task according to the audit planning memorandum for the second half of 2018, audit subject serial no. 36)
- 24/1. *Financial regularity audit on the legality of 2016–2017 the financial management of FIDESZ – Hungarian Civic Union* (ongoing task according to the audit planning memorandum for the second half of 2018; audit subject serial no. 36/1)
- 24/2. *Financial regularity audit on the legality of the 2016–2017 financial management of the Christian Democratic People’s Party* (ongoing task according to the audit planning memorandum for the second half of 2018, audit subject serial no. 36/2)
25. *Regularity audit on the legality of the 2016–2017 financial management of party foundations receiving budget support* (ongoing task according to the audit planning memorandum for the second half of 2018, audit subject serial no. 37)
- 25/1. *Financial regularity audit on the legality of the 2016–2017 financial management of ‘Szövetség a Polgári Magyarorszáért Alapítvány’ (Foundation for a Civic Hungary)* (ongoing task according to the audit planning memorandum for the second half of 2018, audit subject serial no. 37/1)
- 25/2. *Financial regularity audit on the legality of the 2016–2017 financial management of Barankovics István Foundation* (ongoing task according to the audit planning memorandum for the second half of 2018, audit subject serial no. 37/2)
26. *Final accounts of the 2018 budget of Hungary – Compliance audit on the implementation of the 2018 central budget of Hungary*
27. *Opinion on the 2020 central budget – Opinion on the 2020 central budget bill of Hungary*