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Audit Planning Memorandum of the State Audit Office of Hungary for
the Second Half of 2019



STATE AUDIT
OFFICE OF
HUNGARY

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Budapest, July 2019

Introduction

The State Audit Office of Hungary (SAO) is the supreme financial and economic audit organisation of the National Assembly. The National Assembly has only limited control over the government's economic activity, therefore the Fundamental Law statutes the State Audit Office of Hungary (SAO) as an independent institution intended to carry out this task.

It is a warranty provision of Act LXVI of 2011 on the State Audit Office of Hungary (hereinafter: SAO Act), that the activity of the SAO to be carried out according to an audit planning memorandum. Due to the constitutional position of the SAO, the President of the SAO informs the National Assembly about the audit planning memorandum and its amendment. In addition, the SAO publishes its audit planning memorandum. These provisions and measures ensure the transparency of the SAO's audit activity.

According to the provision of the SAO Act, the SAO has general competence to conduct audits of the responsible management of public funds and of state and municipal assets. Within this wide competence for auditing, the SAO's duties are specified by the SAO Act and other laws. The frequency and methodological nature of the SAO audits is defined by the law, or, in the absence of a this, by the President of the SAO.

Accordingly, the SAO audit planning memorandum includes

- I. obligatory audit assignments of lawfulness, set out by respective legislations, their frequency,
- II. further audit assignments indicated by legislations and
- III. audit subjects selected by risk analysis, on the basis of materiality.

The determination of audit subjects selected by risk analysis and the selection of specific audit locations related to each audit topic are supported by a thorough preparatory work and the continuous processing of information required for topic selection. The SAO Act stipulates that in the course of its ongoing audits or in the planning of its audits, the SAO shall use data and facts obtained by it based on information, indications and other documents sent to it or handed over to it on the basis of statutory obligation.

The president of the SAO is entitled to set up the rules and methods of audit, within the legal framework,

as a cornerstone of its independence. The SAO improves its audit methodologies with the consideration of practical experiences, international methodological developments, standards and recommendations. In the second half of 2019, the SAO shall perform audits by using the methods of compliance and performance control, in order to ensure the responsible, transparent and accountable use of public funds. Compliance audits contribute to the compliance of the audited organisations and their activities with the relevant regulations and requirements in all material aspects, while with its performance audits, the SAO contributes to the observance of the principles of effectiveness and efficiency in the financial management of public funds and national assets.

In addition to increasing the audit coverage of certain areas and reducing the load on audited organisations, audits of new technology will be launched in the second half of 2019. In order to cover a substantial population, beyond local governments, the audits are extended to institutions, nationally owned business associations and foundations.

The SAO Act states that, with its findings, recommendations, and advice based on its audit experience, the State Audit Office of Hungary assists the National Assembly, its committees, and the work of the auditees, thus facilitating well-governed state operations. Accordingly, the SAO set it as a primary strategic goal that the utilisation of its audit activity be visible in the reinforcement of public confidence, in the changes of public approach and in the audited entities' attitude, in its assistance provided to legislative activities, as well as in responses given to the most important socio-economic issues.

The respective legislation requires the SAO to carry out obligatory audit assignments with a yearly or biennial frequency. Accordingly, in the second half of 2019, the *monitoring of the implementation of Hungary's 2018 central budget* will be continued as a priority assignment. In order to carry out the task efficiently and successfully, the SAO is performing the audit in accordance with an audit model based on a methodology supported by statistical methods, which is suitable to cover the whole management of public finances. The audit also includes the inspection of the funds used to prepare and conduct the 2018 parliamentary elections and parliamentary by-elections.

Therefore, auditing the financial and asset management of *state property assets* 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. Audit for the year 2017 will be continued in this subject and the SAO will begin auditing for the year 2018.

Based on its legislative authorisation and according to the biennial frequency, the SAO continues to audit the financial management of *political parties and party foundations receiving budget support*, which includes the launching of audits at additional organisations.

The performance of further audit assignments stipulated by law for the SAO shall be continued in the second half of 2019, in the form of organisation-specific audits, with respect to the same field and a predefined subject. These audits will also affect major subfields of public finances and groups of entities that are outside of public finances but are closely related to it. In order to conduct risk analysis-based audits, the SAO puts primary emphasis on the preparation of targeted modular audit plans, adjusted to the specific risks attributed to the audited entities.

During its audits, in compliance with its statutory obligation, the SAO pays primary attention to the assessment of the compliance of the audited entities with the accounting rules of public finances.

In order to conduct efficient and practical audits, local governments, central budgetary institutions and state-owned business associations will be audited with the application of *subject-specific programme units*, established in the course of preliminary risk analysis. In these fields, the SAO focuses on areas of activities where its recommendations can be of use for the highest extent and for the widest range of society. In case of each of the enlisted bodies, the SAO may use modules of integrity, internal control, financial management, property management, significant investments and performance audits. Local government modules are supplemented with an institutional regularity module aiming at the evaluation of the regularity of investment decisions and debt settlement procedures, and

also establishing performance audits. In case of central budgetary institutions, the audit of middle management bodies may also take place; in the course thereof, the duties of administration, financial management and property management, and residual use are also audited by the SAO.

Within the scope of *the audit of local governments*, the monitoring of the data available in the central database of the Hungarian State Treasury will be continued, thus the SAO can involve in the evaluation local governments that were not audited 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 2019, with the purpose of evaluating the implementation of action plans, prepared for the utilisation of audit reports findings. The follow-up audits can reveal whether the errors and deficiencies identified during the audit of the management of public funds and properties have been eliminated and whether thus the protection of public funds and national assets have been realized.

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 auditing budget supports granted to entities outside the state budget and gratuitous asset transfers, contributes to the transparent use of public funds by non-governmental organisations as well.

In the second half of 2019, the audit of the national (majority 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 second half of 2019 the SAO will continue the audit of financial management and operation of institutions that have monitoring and supervisory powers themselves. The SAO will especially focus on audits aimed at the strengthening of *the second line of defence*, for example by examining how the National Tax and Customs Administration and the governing bodies exercise their tasks, more specifically their control and monitoring tasks.

The audit of *Magyar Villamos Művek Zrt.* shall cover the evaluation of the adequacy of its strategic control and monitoring activities as a holding centre over the business organisations in its property. 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.

Among audit subjects selected by risk analysis, on the basis of materiality, the inspection of the responsible management of public property is of particular importance. To ensure the value protection, the expansion, the preservation and the proper utilisation of national assets falling in the scope of *cultural property*, in the second half of 2019, the SAO will continue to audit proprietors, sectoral controllers and supervisory bodies. Cultural assets kept by 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 specific scope of assets managed by *public libraries* and the risk assessment and risk analysis performed related to this topic.

In the second half of 2019 the audit of task performance related to the *child nutrition system* is to be continued. Child nutrition is in the centre of social attention, due to the significant number of concerned individuals and amount of public funds involved, and evidently, due to the importance of safeguarding child health by the provision of the proper quantity and quality food, according to the age of the children.

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 clients were satisfied with the medical services provided.

The SAO wishes to contribute to awareness raising and to the strengthening of the principle of responsible financial management in the field of public education also. The audit of *the control system of public education* is to strengthen the counselling role and the added value-creating activity of the SAO.

With respect to the achievement of goals in the improvement of the circumstances of people living below the poverty threshold, the audit plan of the SAO carried over from the first half of 2019, is targeted at the inspection of the achievement of strategic goals and planned measures implemented *to improve the circumstances of people living below the poverty threshold*.

In the second half of 2019, the SAO, according to its statutory obligation, *starts its annual* audit of the division of *revenues shared* by Budapest Municipality and the district municipalities, as well as of the regularity of the determining and settling of expenses related to local taxation.

During the *audit of the use of funds for the 2019 municipal elections*, the SAO examines the regular use of the budget resources used to conduct the elections. With its related findings, the SAO facilitates and supports legislative and regulatory work.

In the second half of 2019, the SAO's audits are expanded to those business association in which the state is a *minority owner*. During the audit, the compliance of the task performance of the person exercising the propriety right will be assessed. In case of business associations, lossmaking financial management, surcharge payment obligations also pose a financial risk for the state.

Following the preparatory activities carried out earlier, in the second half of 2019 the audit of the *National Fund of Family and Social Policy* will be carried out. The audit is to evaluate whether the control mechanisms in the fields of family subsidies and finances have been established and operated adequately, whether the government offices have taken measures to eliminate the deficiencies identified (in connection with family subsidies) by the previous SAO audits, and whether the affected parties are satisfied with the services rendered.

In the second half of 2019, the SAO starts auditing *the budget headings belonging to the central subsystem of the national budget*. The audit of the budget headings and of the institutions belonging to the budget headings will be carried out on the basis of risk assessment, with the consideration of specific and material characteristics.

Audits will be launched in the second half of 2019 also, in subjects selected by risk analysis, on the basis of materiality. The stability, productivity and sustainability of the Hungarian economy is crucial for the country, and the external vulnerability and the rate of public debt continue to decline as a result of the strategic decisions in this respect. It is, therefore, of prime importance to examine whether *public debt management* by the responsible bodies in the period between 2014 and 2018 has successfully contributed to the reduction of the gross external debt of Hungary.

Depositing and publishing annual reports is of particular importance from the point of view of transparency and accountability of economic organisations using public funds and assets, because these ensure the accessibility of the data of the registered organizations and thus contributes to the compliance with the requirement of publicity. During the audit, we focus on the adequacy of controls, the conformity of relevant legal provisions, and the existence of factors that ensure the enforcement of the principles set out in the Fundamental Law.

In connection with other statutory audit tasks assigned to the SAO, as a result of the SAO's methodological improvements, new audits on selected sites and based on risk assessment will be launched in the second half of 2019, in the subject areas of *follow-up audits, entities providing public library services, foundations/public foundations, nationally-owned business associations, hospitals and integrity audits*. These audits covering major areas on the basis of earlier audit experiences may improve the expediency and efficiency of the use of public funds and the utilization of public property. Audits based on risk assessment, by increasing the number of audits and the number of audited entities may contribute to a greater coverage in the audited areas. Methodological and digital improvements, besides decreasing the workload on the audited entities, allow the time required by audits to be reduced and the efficiency of the audits to be increased.

The SAO, reinforcing its statutory advisory function and for the further utilisation of the findings of thematic audits, prepares summary analyses of its comprehensive audit experiences gained at several entities operating in the same sector. These analyses highlight the risks that exist in the activities of the entities operating in each sector and audited by the SAO. These experiences provide an opportunity for the SAO, on the one hand, to warn other entities operating in a particular sector by describing the irregularities that have been identified in the audited areas. On the other hand, good practices described on the basis of audit experiences may provide guidance for non-audited entities, thus facilitating the improvement of public finances.

The SAO supports the integrity-based use of public funds by voluntary, updated *self-tests*, downloadable from its website, through which the organisations can get information concerning the fields in respect of which their financial management, controlling and regulatory activities may be improved. During its audits, the SAO continues to pay particular attention to the mapping of integrity and the operation of the internal control system, whose appropriate functioning is a prerequisite for the regular, responsible, economical, efficient and sound financial management of public funds and national assets.

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3. *Audit of follow-up audits based on monitoring*
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I.

2019. SECOND SEMESTER AUDITS

Type of the audit: compliance audit

**AUDIT OF LOCAL GOVERNMENTS BASED ON FINANCIAL
MONITORING**

Objective of the audit: to improve the management of risks identified by evaluating the data in the central information system of local governments.

Justification of the audit and expected results: It is a strategic aim of the SAO to assess the financial and economic situation of local governments during their auditing, to identify their risks and to select audit locations based on an objective system indicators.

For carrying out the audit, the designated municipalities are grouped according to the audit feasibility and the aspects of risks and verifiability. One of the strategic objectives of the SAO is to reduce the number of on-the-spot audits through a new approach on analysis-based sampling and auditing procedures.

On the basis of the evaluation of local governments' annual budget report, interim budget reports and balance sheets data that figure in the central information system, the monitoring system indicates which are the local governments and areas that have been affected by unfavorable economic processes or economic events that justify the conduction of an audit. The audit is carried out using the monitoring reports on the local government subsystem and the data and information provided by the local governments in the framework of certificates. As a result of this simplified audit methodology, the SAO is able to involve local governments where no previous audits have been carried out and, by making the most effective use of its capacities, is able to provide the highest risk-focused coverage in the field of the local government subsystem.

By pointing out the risk factors in the operation and management of the local governments, and by providing recommendations for their modification, the SAO, through its audits, contributes to the regular and sustainable operation of a “well-governed state” and of the local governments.

Topic No.: 1/2

Type of the audit: compliance audit

AUDIT OF LOCAL GOVERNMENTS BASED ON FINANCIAL MONITORING

(second phase)

Objective of the audit: to improve the management of risks identified by evaluating the data in the central information system of local governments.

Justification of the audit and expected results: It is a strategic aim of the SAO to assess the financial and economic situation of local governments during their auditing, to identify their risks and to select audit locations based on an objective system indicators.

For carrying out the audit, the designated municipalities are grouped according to the audit feasibility and the aspects of risks and verifiability. One of the strategic objectives of the SAO is to reduce the number of on-the-spot audits through a new approach on analysis-based sampling and auditing procedures.

On the basis of the evaluation of local governments' annual budget report, interim budget reports and balance sheets data that figure in the central information system, the monitoring system indicates which are the local governments and areas that have been affected by unfavorable economic processes or economic events that justify the conduction of an audit. The audit is carried out using the monitoring reports on the local government subsystem and the data and information provided by the local governments in the framework of certificates. As a result of this simplified audit methodology, the SAO is able to involve local governments where no previous audits have been carried out and, by making the most effective use of its capacities, is able to provide the highest risk-focused coverage in the field of the local government subsystem.

By pointing out the risk factors in the operation and management of the local governments, and by providing recommendations for their modification, the SAO, through its audits, contributes to the regular and sustainable operation of a “well-governed state” and of the local governments.

Type of the audit: compliance audit

FOLLOW-UP AUDITS

(second phase)

Objective of the audit: 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.

Justification of the audit and expected results: Pursuant to Section 1 of Article 33 of the SAO Act, the head of the audited organisation is required to draw up an action plan, based on the findings of the SAO reports requiring action, and send it to the State Audit Office.

During the follow-up audit, the SAO assesses whether the tasks defined in the action plan, prepared by the audited organisation in compliance with its statutory obligation and in accordance with the findings and recommendations requiring action in the relevant SAO report, have been carried out by the designated responsible.

The implementation of the measures may reduce the risks in respect of the proper functioning of the given area, but in the long run these will not be eliminated as a result of the sole implementation of the action plan, only if it is integrated and maintained continuously within the operation of the audited organisation. In addition, until the implementation of measures, additional risks may arise in respect of the regular operation of the organisation, the management of which is also of particular importance to the audited entity.

Incomplete or late implementation or the failure of the implementation of the measures included in action plans prepared by the head of the audited organisation, carry a risk in respect of regularity and responsible managerial behaviour, which shows that the management of errors, deficiencies and irregularities detected during the audits was not given due emphasis. In the event of irregularities still present during the follow-up audit, the assessment of the likely impact of jeopardising public funds and public property may lead to further measures.

At the level of the audited organization, the follow-up audit reveals whether the organization has implemented the measures formulated in the previous audit report for addressing deficiencies and managing risks, and carries out an assessment on the endangerment of public funds, in case of persistent irregularities resulting from the failure to implement the above measures.

Topic No.: 2/2

Type of the audit: compliance audit

FOLLOW-UP AUDITS

(third phase)

Objective of the audit: 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.

Justification of the audit and expected results: Pursuant to Section 1 of Article 33 of the SAO Act, the head of the audited organisation is required to draw up an action plan, based on the findings of the SAO reports requiring action, and send it to the State Audit Office.

During the follow-up audit, the SAO assesses whether the tasks defined in the action plan, prepared by the audited organisation in compliance with its statutory obligation and in accordance with the findings and recommendations requiring action in the relevant SAO report, have been carried out by the designated responsible.

The implementation of the measures may reduce the risks in respect of the proper functioning of the given area, but in the long run these will not be eliminated as a result of the sole implementation of the action plan, only if it is integrated and maintained continuously within the operation of the audited organisation. In addition, until the implementation of measures, additional risks may arise in respect of the regular operation of the organisation, the management of which is also of particular importance to the audited entity.

Incomplete or late implementation or the failure of the implementation of the measures included in action plans prepared by the head of the audited organisation, carry a risk in respect of regularity and responsible managerial behaviour, which shows that the management of errors, deficiencies and irregularities detected during the audits was not given due emphasis. In the event of irregularities still present during the follow-up audit, the assessment of the likely impact of jeopardising public funds and public property may lead to further measures.

At the level of the audited organization, the follow-up audit reveals whether the organization has implemented the measures formulated in the previous audit report for addressing deficiencies and managing risks, and carries out an assessment on the endangerment of public funds, in case of persistent irregularities resulting from the failure to implement the above measures.

At the level of the SAO, follow-up audits provide feedback on the utilisation of audit reports, and the assessment of the likely impact of the failure of implementation or partial implementation of measures on the endangerment of public funds and public property, may result in additional measures.

Type of the audit: compliance audit

AUDIT OF FOLLOW-UP AUDITS BASED ON MONITORING

Objective of the audit: to assess whether the manager or head of the organisation obligated to establish and operate an internal control system has reduced the risks of the organisation's regular operation, based on the evaluation of the implementation of the tasks defined in their action plan.

Justification of the audit and expected results: Pursuant to Section 1 of Article 33 of the SAO Act, the head of the audited organisation is required to draw up an action plan, based on the findings and recommendations of the SAO reports requiring action, and send it to the State Audit Office.

According to the regulation of Government Decree 370/2011 (XII. 31.) on the internal control system and internal audit of budgetary institutions, the head of the organisation or organisational unit that has been audited and affected by recommendations is responsible for the preparation and implementation of the action plan, just as for reporting on the measures taken. This legislation imposes an annual reporting obligation on the head of the budgetary institution. It sets forth that the head of the budgetary institution shall report the implementation of the action plans prepared based on the recommendations of external audits on an annual basis to the head of the body managing the chapter as well as the head of internal audit of the same.

As part of the follow-up audit, the SAO evaluates whether the head of the budgetary institution took the measures necessary for the regular use of public funds and public property by evaluating the implementation of the tasks set out in the action plan prepared in accordance with the findings and recommendations requiring measures to be taken included in the concerned audit report. The SAO applies a risk assessment based audit approach during the follow-up audits.

If the head of the institution fails to take the required measures, the assessment of the likely impact of such failure on the endangerment of public funds and public property may result in additional measures.

Topic No.: 4

Type of the audit: compliance and performance audit

AUDIT OF THE CHILD NUTRITION SYSTEM

Objective of the audit: The performance audit of duties related to the child nutrition system. The purpose of the audit is to determine whether the management and operation of child nutrition at the local governments was adequate, and whether the responsible state bodies implemented controlling tasks in a regular and effective way. We evaluate whether the task of child nutrition during holidays was successful.

Justification of the audit and expected results: child nutrition is in the centre of social attention, due to the significant number of concerned individuals and amount of public funds involved, and evidently, due to the importance of safeguarding child health by the provision of the proper quantity and quality food, according to the age of the children.

A reform is in progress in child nutrition, the success of which requires participants in the respective system to take objective oriented measures by continuously monitoring the system through feedback mechanisms and, by implementing changes where it is justified. As of January 1, 2013, it is a mandatory task of local governments to ensure child nutrition within the administrative area of their settlement. In 2014, the financing of child nutrition has changed: a task based support system has been introduced, taking into account the social situation of children in need.

The fundamental points of child nutrition are defined by Act XXXI of 1997 on the Protection of Children and Guardianship Administration (Gyvt.). According to this act, child nutrition in nurseries, kindergartens, primary and secondary schools is the responsibility of the local government, while in day care institutions for the disabled subject to the social law, and other state and non-state owned institutions, this is the task of the institution operator. This law also lays down the eligibility conditions for discounted and free child nutrition. As of January 1, 2016, the above act introduced the concept of institutional child nutrition and laid down rules for the provision of child nutrition during holidays. The audit findings may provide useful information for legislative bodies, society, the audited entities and the SAO itself.

Type of the audit: compliance audit

AUDIT OF PUBLIC BODIES

(third phase)

Objective of the audit: to establish whether the public body complied with the applicable provisions of laws in the course of its financial management, as well as to determine whether it complied with regulations in the course of establishing the regulatory framework, collecting membership fees and in its disclosure and data provision activity as part of the foregoing. To determine whether the public body accounted and registered the central budget subsidies received for performing its public function laid out in laws in a compliant manner. Finally, to determine whether the control systems ensuring the compliant operation of the public body worked properly.

Justification of the audit and expected results: Public bodies carry out public tasks which are in the centre of public attention. It is a social requirement to use public funds on the basis of values, for the intended purpose, to establish the transparency of supports provided from public funds, and the State Audit Office of Hungary intends to contribute to this with its audits assessing the supports provided from the state budget.

As a result of the audit, experience will be gathered to legislation for the regulation of public bodies. The audit may provide feedback to auditees on the regularity of the use of state subsidies received to carry out their public functions and its potential deficiencies, while also providing information to society about the financial management of public bodies and the use of public funds. Through the audit, the SAO strengthens its added value-creating activity and counselling role.

Topic No.: 5/2

Type of the audit: compliance audit

AUDIT OF PUBLIC BODIES

(fourth phase)

Objective of the audit: to establish whether the public body complied with the applicable provisions of laws in the course of its financial management, as well as to determine whether it complied with regulations in the course of establishing the regulatory framework, collecting membership fees and in its disclosure and data provision activity as part of the foregoing. To determine whether the public body accounted and registered the central budget subsidies received for performing its public function laid out in laws in a compliant manner. Finally, to determine whether the control systems ensuring the compliant operation of the public body worked properly.

Justification of the audit and expected results: Public bodies carry out public tasks which are in the centre of public attention. It is a social requirement to use public funds on the basis of values, for the intended purpose, to establish the transparency of supports provided from public funds, and the State Audit Office of Hungary intends to contribute to this with its audits assessing the supports provided from the state budget.

Professional activity subject to membership will be given particular attention in the course of the audit. As a result of the audit, experience will be gathered to legislation for the regulation of public bodies. The audit may provide feedback to auditees on the regularity of the use of state subsidies received to carry out their public functions and its potential deficiencies, while also providing information to society about the financial management of public bodies and the use of public funds. Through the audit, the SAO strengthens its added value-creating activity and counselling role.

Type of the audit: compliance audit

AUDIT OF NON-GOVERNMENTAL HUMAN SERVICE PROVIDERS

The audit of the use of central budget grants and subsidies received by operators of public education and social institutions and service providers, outside of public finances, providing human services

(third phase)

Objective of the audit: to assess whether operators of non-governmental and non-municipal public education and social institutions have used the grants received from the central budget in compliance with regulations, and whether the requests for the grants, their mid-year modification and end-of-year settlement were in accordance with legal regulations.

Justification of the audit and expected results: The all times prevailing budget acts provided significant amounts of financial support annually for operators of non-governmental institutions performing public education and social functions for the performance of their public duties, subject to the conditions laid out in such acts. The amount of usable state subsidies as earmarked by the budget act amounted to a total of HUF 753 billion in the years 2014-2016. In 2013, substantial changes took place in the system of normative funding. The Parliament adopted Act CXC of 2011 on National Public Education, which significantly transformed the former funding system as of September 2013. Act III of 1993 on Social Governance and Social Benefits was also amended, which, amongst others, laid out the regulations related to acceptance to the funding system, effective as of January 1, 2012. The audit focuses on the changes that took place in the funding system between 2011 and 2015 and their impacts on performing public duties in terms of the organisations outside of public finances using budget support. With its recommendations, the audit can contribute to the regular subsidy-use of said systems, it may increase the compliance of socio-economic decisions, which are the conditions of a well-managed state. The audit is further justified by the fact that several organisations on this field have not yet been audited by the State Audit Office of Hungary.

In the spirit of holistic approach, we assess the compliance of the use of supports related to activities of public education and social functions outside of public finances at operators and their institutions chosen based on individual risk analysis in the framework of the audit.

Topic No.: 6/2

Type of the audit: compliance audit

AUDIT OF NON-GOVERNMENTAL HUMAN SERVICE PROVIDERS

The audit of the use of central budget grants and subsidies received by operators of social institutions and service providers, outside of public finances, providing human services

(fourth phase)

Objective of the audit: to assess whether operators of non-governmental and non-municipal public education and social institutions have used the grants received from the central budget in compliance with regulations, and whether the requests for the grants, their mid-year modification and end-of-year settlement were in accordance with legal regulations.

Justification of the audit and expected results: The all times prevailing budget acts provided significant amounts of financial support annually for operators of non-governmental institutions performing social functions for the purpose of the performance of their public duties, subject to the conditions laid out in such acts. The state subsidies in the budget acts (Act C of 2014 on the Central Budget of Hungary in 2015, Act C of 2015 on the Central Budget of Hungary in 2016, Act XC of 2016 on the Central Budget of Hungary in 2017) established a budget appropriation of 273 billion HUF in terms of the social sector in the years between 2015 and 2017. Act III of 1993 on Social Governance and Social Benefits was also amended,

which, amongst others, laid out the regulations related to acceptance to the funding system, effective as of January 1, 2012. The subsidy based on average salary, as a form of function financing introduced in 2013 is also applicable to proprietors of institutions outside of public finances.

In its strategy, the SAO has set the objective to audit the budget support granted outside the state budget to ensure that even the organisations outside the state budget use public funds in a transparent way in order to perform public service tasks in a contractual manner. The audit shows to society that the use of public funds outside of public finances cannot remain uncontrolled. With its recommendations, the audit can contribute to the regular subsidy-use of said systems, it may better the substantiation of socio-economic decisions, which are the conditions of a well-managed state.

In the spirit of holistic approach, we assess the compliance of the use of supports related to activities of social functions outside of public finances at operators and their institutions chosen based on individual risk analysis in the framework of the audit.

Type of the audit: compliance audit

AUDIT OF NON-GOVERNMENTAL HUMAN SERVICE PROVIDERS

The audit of the use of central budget grants and subsidies received by operators of public education and social institutions and service providers, outside of public finances, providing human services

(fifth phase)

Objective of the audit: to assess whether operators of non-governmental and non-municipal public education and social institutions have used the grants received from the central budget in compliance with regulations, and whether the requests for the grants, their mid-year modification and end-of-year settlement were in accordance with legal regulations.

Justification of the audit and expected results: The all times prevailing budget acts provided significant amounts of financial support annually for operators of non-governmental institutions performing public education and social functions for the performance of their public duties, subject to the conditions laid out in such acts. The amount of usable state subsidies as earmarked by the budget act amounted to a total of HUF 828 billion in the years 2016-2018. In 2013, substantial changes took place in the system of normative funding. The Parliament adopted Act CXC of 2011 on National Public Education, which significantly transformed the former funding system as of September 2013. Act III of 1993 on Social Governance and Social Benefits was also amended, which, amongst others, laid out the regulations related to acceptance to the funding system, effective as of January 1, 2012. The audit focuses on the changes that took place in the funding system and their impacts on performing public duties in terms of the organisations outside of public finances using budget support. With its recommendations, the audit can contribute to the regular subsidy-use of said systems, it may increase the compliance of socio-economic decisions, which are the conditions of a well-managed state. The audit is further justified by the fact that several organisations on this field have not yet been audited by the State Audit Office of Hungary.

In the spirit of holistic approach, we assess the compliance of the use of supports related to activities of public education and social functions outside of public finances at operators and their institutions chosen based on individual risk analysis in the framework of the audit.

Topic No.: 7/1

Type of the audit: compliance audit

PERFORMANCE AUDIT ON PUBLIC LIBRARY SUPPLY

(second phase)

Objective of the audit: to establish whether in the years between 2015 and 2017, the financial and asset management of public libraries, the registration and preservation of assets managed by the libraries, the establishment and operation of an internal control system, as well as the performance of the tasks of proprietors of institutions was carried out in compliance with laws, and whether the integrity approach prevailed.

Justification of the audit and expected results: The amount of public funds used for the maintenance of libraries, the diversity of entities maintaining public libraries, the large number of public libraries and points performing tasks, the special scope of assets managed by libraries, as well as the risks identified regarding the subject, all support the necessity of auditing public libraries. With the findings of particular audits and the analysis of audit results of a given period, the SAO can draw the attention of legislators to financial or regulatory tensions potentially arising in the central sub-system or a sector thereof.

Type of the audit: compliance audit

PERFORMANCE AUDIT ON PUBLIC LIBRARY SUPPLY

(third phase)

Objective of the audit: to establish whether in the years between 2016 and 2018, the financial and asset management of public libraries, the registration and preservation of assets managed by the libraries, the establishment and operation of an internal control system, as well as the performance of the tasks of proprietors of institutions was carried out in compliance with laws, and whether the integrity approach prevailed.

Justification of the audit and expected results: The amount of public funds used for the maintenance of libraries, the diversity of entities maintaining public libraries, the large number of public libraries and points performing tasks, the special scope of assets managed by libraries, as well as the risks identified regarding the subject, all support the necessity of auditing public libraries. With the findings of particular audits and the analysis of audit results of a given period, the SAO can draw the attention of legislators to financial or regulatory risks potentially arising in the central sub-system or a sector thereof.

Topic No.: 8

Type of the audit: compliance audit

PERFORMANCE AUDIT ON PUBLIC LIBRARY SUPPLIERS

Objective of the audit: to determine whether public libraries have provided the essential conditions for the regular management of finances and assets, and also the regularity of matters identified as material on the basis of risk indicators.

Justification of the audit and expected results: The amount of public funds used for the maintenance of libraries, the diversity of entities maintaining public libraries, the large number of public libraries and points performing tasks, the special scope of assets managed by libraries, as well as the risks identified regarding the subject, all support the necessity of auditing public libraries.

The audit, based on a new methodology of risk assessment, covers material areas of financial and asset management and, by defining focal points, enables the identification of risks and the consideration of changes in risk areas in comparison with the reports of previous audits. The scope of the audit may include auditing the regularity of additional material areas, based on risk indicators and depending on the risk assessment, until the date of commencement of the audit, taking into consideration the legal requirements and the public methodology published by the SAO.

The audit may provide an assessment on the quality of the management and whether public libraries have provided the conditions for the performance audit.

Type of the audit: compliance and performance audit

AUDIT OF LOCAL GOVERNMENTS

Objective of the audit: to determine whether the local government performs its financial management in an accountable manner and whether it complies with the principle laid out in the Fundamental Law that Hungary shall enforce the principle of a balanced, transparent and sustainable budget management. To determine whether the local government ensured the preservation, protection and compliant management of the value of national assets.

Justification of the audit and expected results: The property of local governments forms part of national assets, and it is also set out in the Fundamental Law that the management of the assets is serving the public interest. The State Audit Office of Hungary, in virtue of its authorisation granted to it in the Act on SAO, audits the financial management and operation of local governments in order to support the regular financial management of audited local governments with the findings of its audit, to promote the prevalence of the principles laid out in the Fundamental Law in the everyday operation of local governments with its recommendations. With the holistic analyses of the processes taking place in the local government system, using the method of continuous monitoring of risks, and with the targeted and efficient auditing of the local governments selected this way, the State Audit Office of Hungary fulfils the mission of the supreme economic audit organisation. With the findings of particular audits and the analysis of audit results of a given period, the SAO can draw the attention of legislators to financial or regulatory tensions potentially arising in the local government sub-system. In the course of the numerous audits carried out, the SAO can also identify “*good practices*”, and can introduce such good practices to a wider scope of concerned parties in its consulting function, thus also contributing to the regulated, transparent, balanced and sustainable operation of the local government subsystem. In order to conduct efficient and practical audits, they are carried out with 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 analysis. The highlighted subjects of audits carried out via modules:

- integrity and internal control: evaluates how controlled the operation of local governments is as well as how protected they are against corruption,
- financial management: evaluates financial balance and the financial processes
- property management: evaluates management of local government owned property, the protection of state property and the preservation of its value,
- investments: evaluates the regularity and propriety of investment decisions,
- significant investments: evaluates the preparation of investment performed with the use of funds from the central budget as well as the preparedness of the local government to carry out the investment,
- debt settlement: evaluates whether the financial management of the local government complied with statutory provisions in the course of the debt settlement proceeding,
- performance audit: evaluates the performance categories in terms of the whole organisation and certain parts thereof (effectiveness, expediency, efficiency, economy) (including, amongst others: the performance of the economic area, leadership performance),
- audit of institutions: regularity audit for substantiating the performance audit module, evaluates the property management of institutions.

Topic No.: 10/1

Type of the audit: compliance and performance AUDIT OF

CENTRAL BUDGETARY INSTITUTIONS

Objective of the audit: to determine whether the organisation belonging to the central subsystem of public finances performs its financial management in an accountable manner and whether it complies with the principle laid out in the Fundamental Law that Hungary shall enforce the principle of a balanced, transparent and sustainable budget management. To determine whether the budgetary institution ensured the preservation of the value of national assets as well as their protection and compliant management.

Justification of the audit and expected results: The property of organisations belonging to the central subsystem of public finances forms part of national assets, and it is also set out in the Fundamental Law that the management of the assets is serving the public interest. The SAO audits the implementation of the annual budget act, it audits the financial management and operation of budgetary institutions with add-on audits for the purpose of managing the risks identified with the continuous risk assessment of the risks explored during the audit and the area in order to support the regular financial management of the audited entities with the findings of the audits, to promote the prevalence of the basic postulates set out in the Fundamental Law in the everyday operation of institutions with its recommendations. With the holistic analyses of the processes taking place in the system of central budget, using the method of continuous monitoring of risks, and with the targeted and efficient auditing of the organisations selected this way, the State Audit Office of Hungary fulfils the mission of the supreme economic audit organisation. With the findings of particular audits and the analysis of audit results of a given period, the SAO can draw the attention of legislators to financial or regulatory tensions potentially arising in the central sub-system or a sector of the same. In the course of the audits carried out, the SAO can also identify “good practices” , and can introduce such good practices to a wider scope of concerned parties in its consulting function, thus also contributing to the regulated, transparent, balanced and sustainable operation of the central budget system.

The audit takes place based on the risk assessment of the organisation, by taking into consideration the individual and material characteristics, with the application of the module or modules selected for the audit. The highlighted subjects of audits carried out via modules:

- integrity and internal control: evaluates how controlled the operation of the central budgetary institution is as well as how protected they are against corruption,
- financial management: evaluates financial balance and the financial processes,
- property management: evaluates property management, the protection of state property, the preservation of its value and conditions at the central budgetary institution,
- budgetary balance: evaluates the calculation of the budgetary balance and the management of the end-of-the-year unpaid accounts payable influencing the amount of such balance,
- significant investments: evaluates the preparation of investment performed with the use of funds from the central budget as well as the preparedness of the organisation to implement the investment,
- performance audit: evaluates the effectiveness of the economic area of the organisation and measures leadership performance.

Type of the audit: compliance and performance audit

AUDIT OF CENTRAL BUDGETARY INSTITUTIONS

(second phase)

Objective of the audit: to determine whether the organisation belonging to the central subsystem of public finances performs its financial management in an accountable manner and whether it complies with the principle laid out in the Fundamental Law that Hungary shall enforce the principle of a balanced, transparent and sustainable budget management. To determine whether the budgetary institution ensured the preservation of the value of national assets as well as their protection and compliant management. The regularity of matters marked as important based on risk indicators will also be evaluated.

Justification of the audit and expected results: The property of organisations belonging to the central subsystem of public finances forms part of national assets, and it is also set out in the Fundamental Law that the management of the assets is serving the public interest. The SAO audits the implementation of the annual budget act and it audits the financial management and operation of budgetary institutions with add-on audits for the purpose of managing the risks identified with the continuous risk assessment of the risks explored during the audit and the area. This way, it supports the regular financial management of the audited entities with the findings of the audits and it promotes the prevalence of the basic postulates set out in the Fundamental Law in the everyday operation of institutions with its recommendations. With the holistic analyses of the processes taking place in the system of central budget, using the method of continuous monitoring of risks, and with the targeted and efficient auditing of the organisations selected this way, the State Audit Office of Hungary fulfils the mission of the supreme economic audit organisation. With the findings of particular audits and the analysis of audit results of a given period, the SAO can draw the attention of legislators to financial or regulatory tensions potentially arising in the central sub-system or a sector of the same. In the course of the audits carried out, the SAO can also identify “good practices”, and can introduce such good practices to a wider scope of concerned parties in its consulting function, thus also contributing to the regulated, transparent, balanced and sustainable operation of the central budget system.

The audit takes place based on the risk assessment of the organisation, by taking into consideration the individual and material characteristics, with the application of the module or modules selected for the audit. The highlighted subjects of audits carried out via modules:

- integrity and internal control: evaluates how controlled the operation of the central budgetary institution is as well as how protected they are against corruption,
- financial management: evaluates financial balance and the financial processes,
- property management: evaluates property management, the protection of state property, the preservation of its value and conditions at the central budgetary institution,
- budgetary balance: evaluates the calculation of the budgetary balance and the management of the end-of-the-year unpaid accounts payable influencing the amount of such balance,
- significant investments: evaluates the preparation of investment performed with the use of funds from the central budget as well as the preparedness of the organisation to implement the investment,
- performance audit: evaluates the effectiveness of the economic area of the organisation and measures leadership performance.
- risk assessment based audit of hospitals: the programme provides opportunity for both individual and group evaluations, and the scope of the audit can include the auditing of the compliance of additional material areas based on risk indicators and depending on the risk assessment until the date of commencement of the audit, taking into

consideration the public methodology published by the State Audit Office of Hungary.

Topic No.: 11/1

Type of the audit: compliance audit

**PERFORMANCE AUDIT ON THE MANAGEMENT AND PROPRIETARY
DUTIES OF BUDGETARY INSTITUTIONS**

Objective of the audit: to assess whether the tasks of the managers or proprietors of central budgetary institutions were properly performed. During the audit we evaluate the establishment of integrity controls of corruption risks management at the organisation and whether the integrity approach has been applied.

Justification of the audit and expected results: The State Audit Office of Hungary continuously monitors the performance of tasks of budgetary institutions as governing bodies and audits the same on a regular basis. The audit primarily focuses on assessing how the budgetary institutions and organisational units performing managerial and proprietary functions established and operated the system of the practical implementation of managerial and proprietary tasks essential for providing public services as well as the controlling of such system.

In terms of auditing budgetary institutions, the SAO primarily focuses on organisations carrying out managerial or proprietary functions of key social importance. Through auditing the organisations performing managerial or proprietary functions, the State Audit Office of Hungary can contribute to a more regular, effective and efficient task performance and financial management of the entire institutional system.

In the course of the audits carried out, the SAO can also identify “*good practices*”, and can introduce such good practices to a wider scope of concerned parties in its consulting function, thus also contributing to the regulated, transparent and balanced operation of the central budget system.

Type of the audit: compliance audit

**PERFORMANCE AUDIT ON THE MANAGEMENT AND PROPRIETARY DUTIES
OF BUDGETARY INSTITUTIONS**

(second phase)

Objective of the audit: to assess whether the tasks of the managers or proprietors of central budgetary institutions were properly performed. During the audit we evaluate the establishment of integrity controls of corruption risks management at the organisation and whether the integrity approach has been applied.

Justification of the audit and expected results: The State Audit Office of Hungary continuously monitors the performance of tasks of budgetary institutions as governing bodies and audits the same on a regular basis. The audit primarily focuses on assessing how the budgetary institutions and organisational units performing managerial and proprietary functions established and operated the system of the practical implementation of managerial and proprietary tasks essential for providing public services as well as the controlling of such system.

In terms of auditing budgetary institutions, the SAO primarily focuses on organisations carrying out managerial or proprietary functions of key social importance. Through auditing the organisations performing managerial or proprietary functions, the State Audit Office of Hungary can contribute to a more regular, effective and efficient task performance and financial management of the entire institutional system.

In the course of the audits carried out, the SAO can also identify “*good practices*”, and can introduce such good practices to a wider scope of concerned parties in its consulting function, thus also contributing to the regulated, transparent and balanced operation of the central budget system.

Topic No.: 12

**Type of the audit: regularity audit AUDIT ON FINANCIAL MANAGEMENT
OF FOUNDATIONS/PUBLIC FOUNDATIONS**

(third phase)

Objective of the audit: to determine whether accountability and transparency were ensured in the course of the financial management of the foundation, whether the registers related to the subsidy received from public funds and to state property used by the foundation were established properly, and whether the specified reporting was carried out and the value of the state property was preserved properly.

Justification of the audit and expected results: It is a social requirement to use public funds on the basis of values, for the intended purpose, to establish the transparency of supports provided from public funds, and the State Audit Office of Hungary (hereinafter: the SAO) intends to contribute to this with auditing the fulfilment of the obligation of registration, reporting and preservation of value in terms of the supports provided from the state budget, as well as by business associations owned exclusively or in majority by the state, as well as gratuitous transfers of assets from the state budget. The aim of the State Audit Office of Hungary is to contribute to allowing society to gain an objective insight into the operation of foundations by assessing the accountability of the financial management of foundations. It is a strategic objective of the SAO to contribute to the transparent use of public funds at entities outside the state budget, by performing the audit of budget supports and asset transfers granted to these organisations.

The targeted users of audit findings are the public, legislature as well as the founders and organisations of foundations. As a result of the audit, experience is gathered to legislature for the regulation of the financial management of foundations. The identification of deficiencies and irregularities in terms of the financial management of the audited entities, as well as the findings formulated in relation to such deficiencies and irregularities may promote the regular financial management of foundations. The audit provides information to society as to whether the foundations established the conditions necessary for the regular use of public funds, and the audit contributes to the implementation of the strategic goals of the State Audit Office of Hungary in a value-creating manner and to the proper information of the public.

Type of the audit: compliance audit

AUDIT OF FOUNDATIONS/PUBLIC FOUNDATIONS

Objective of the audit: determining whether the basic conditions for the regular financial management of the foundation and for the use of budget support are ensured, whether the foundation has guaranteed accountability and transparency in terms of the records regarding the use of public funds and national assets, and also the regularity of matters identified as material on the basis of risk indicators.

Justification of the audit and expected results: Foundations receive a significant amount of budget support annually. Due to their diverse range of activities they are connected to society on several levels. It is a social requirement to use public funds on the basis of values, for the intended purpose and to establish the transparency of supports provided from public funds. The SAO audits basic regulatory frameworks for the management of public funds, record keeping, and the fulfillment of reporting obligations at foundations that have received subsidies from public finances or from business associations in exclusive or majority state ownership. By evaluating the transparency of the utilised funds and the accountability of the financial management of public funds, the SAO promotes an objective view for society in respect of the functioning of foundations. It is a strategic objective of the SAO to contribute to the transparent use of public funds at entities outside the state budget, by performing the audit of budget supports and asset transfers granted to these organisations.

The audit provides information to society as to whether the foundations established the conditions necessary for the regular use of public funds. The scope of the audit may include auditing the regularity of additional material areas, based on risk indicators and depending on the risk assessment, until the date of commencement of the audit, taking into consideration the legal requirements and the public methodology published by the SAO.

The audit, based on a new methodology of risk assessment, covers material areas of the management of public fund by foundations and, by defining focal points, enables the identification of risks and the consideration of changes in risk areas in comparison with the reports of previous audits.

Topic No.: 14

Type of the audit: compliance and performance audit

AUDIT OF STATE-OWNED BUSINESS ASSOCIATIONS

Objective of the audit: to determine whether the business association carried out its financial management in an accountable, transparent and regular manner, and whether the business association ensured the preservation of value, protection and compliant management of national assets. The SAO also audits whether the persons exercising ownership rights exercised its rights and fulfilled its obligations properly.

Justification of the audit and expected results: Auditing state-owned economic organisations is of key importance in view of the preservation and protection of national property. Their financial management is typically in the centre of public attention and of the media, which is also influenced by the size of the property (owned directly or indirectly by the state or local governments, and thus, ultimately forming part of national assets) under their financial management, as well as the quality and efficiency of the public services provided by such organisations. Special attention is paid to the substantiation of the pricing of public services and the establishment of the conditions of regular accounting in the course of the audit. Also taking into consideration the Excessive Deficit Procedure in effect in the European Union since 1994, the economic organisations owned by the state or local governments appearing in the accounts of the government sector are of priority importance, in terms of which having regular financial management and operation as well as the provision of reliable data are basic requirements.

Our audits may explore whether the business association ensured the fulfilment of its tasks and the conditions necessary for the continuous sustainability of the service by complying with the provisions of the contract for services and subject to responsible financial management and whether the owners contributed to regular financial management and task performance. As a result of the audit, the identification of risks affecting organisations with an influence on the budget deficit and the mitigation of such risks, becomes possible. The utilisation of the recommendations of the audit office formulated based on the findings may promote the elimination of existing deficiencies. By disclosing good practices, the State Audit Office of Hungary may contribute to the familiarisation and distribution of the solutions to be followed.

The audit takes place based on the risk assessment of the organisation, by taking into consideration the individual and material characteristics, with the application of the module or modules selected for the audit. The highlighted subjects of audits carried out via modules:

- integrity and internal control: evaluates how controlled the operation of the business association is, as well as, how protected it is against corruption
- financial management: evaluates the financial balance and the financial processes, as well as the regularity of the accounting of revenues and expenditures
- property management: evaluates property management, the protection of state property, the preservation of its value and conditions at the business association
- significant investments: evaluates the preparation of investment performed with the use of funds from the central budget as well as the preparedness of the organisation to implement the investment
- performance audit: evaluates the effectiveness of the economic area of the organisation and measures leadership performance
- exercise of proprietary rights: evaluates whether the person exercising the owner's rights exercised such rights over its business associations in a compliant manner
- ESA: evaluates whether the elements of the financial management of the company classified in the government sector influencing the deficit of the government sector and public debt complied with the legal regulations.

Type of the audit: compliance audit

AUDIT OF ASSETS OF STATE-OWNED BUSINESS ASSOCIATIONS

Objective of the audit: to assess whether the exercise of proprietary rights has ensured the compliant approval of accounting reports; whether the availability of reliable and authentic information on the company's assets, based on the company's accounting reports, is guaranteed, and the regularity of issues identified as material on the basis of risk indicators.

Justification of the audit and expected results: Auditing state-owned business associations is of key importance in view of the preservation and protection of national property. Their financial management is typically in the centre of public attention and of the media, which is also influenced by the size of the property (owned directly or indirectly by the state or local governments, and thus, ultimately forming part of national assets) under their financial management, as well as the quality and efficiency of the public services provided by such organisations.

Audits carried out on the basis of material documents include the approval of accounting reports by the person practicing proprietary rights, and the evaluation of the information on the assets of the company, available on the basis of accounting reports. The scope of the audit may include auditing the regularity of additional material areas, based on risk indicators and depending on the risk assessment, until the date of commencement of the audit, taking into consideration the legal requirements and the public methodology published by the SAO.

The audit, based on a new methodology of risk assessment, covers material areas of the management of assets by business associations, and, by defining focal points, enables the identification of risks and the consideration of changes in risk areas in comparison with the reports of previous audits. The audit may provide an assessment on the quality of the management and whether the business associations have provided the conditions for the performance audit.

Topic No.: 16

Type of the audit: compliance audit

**PERFORMANCE AUDIT ON THE NATIONAL TAX AND CUSTOMS
ADMINISTRATION'S TASK PERFORMANCE RELATED TO
CORPORATE INCOME TAX**

Objective of the audit: to assess the effectiveness of the task performance of the National Tax and Customs Administration (NTCA) related to corporate income tax. The SAO audit assesses 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), and, in connection to this, assesses the adequacy of establishing and operating the internal control mechanisms ensuring regular task performance, and it also assesses the record-keeping, data provision and audit activity of the National Tax and Customs Administration (NTCA) in relation to the benefits deductible in corporate tax.

Justification of the audit and expected results: The SAO performs its audits on the task performance of the NTCA annually, according to a systematic plan, focusing on the fields of activity that proved to be risky based on previous audit experiences. Past audits of the SAO did not cover the full scope of taxes, deductible tax allowances, and the associated task performance of the tax administration. With regard to the taxes not previously audited, it is justified that the SAO audits and evaluates the NTCA's execution of task performance related to tax collection, tax records and tax inspection.

Type of the audit: compliance audit

AUDIT OF MAGYAR VILLAMOS MŰVEK ZRT.

Objective of the audit: to assess whether MVM Magyar Villamos Művek Zrt. adequately carried out its activity of strategic control, monitoring and central financial management of cash and state property, and whether it fulfilled its obligations related to disclosure and data provision.

Justification of the audit and expected results: The objectives set out in the framework strategy of the European Energy Union demand a joint effort from all the member states. The State Audit Office of Hungary can support this process, firstly, by closely monitoring the domestic aspect of the energy union and the progress obtained, and secondly, by imposing audits in the energy sector. MVM Zrt. and MVM Group play a key role in the domestic achievement of objectives set out in the energy union framework strategy. The operation of the holding managed by MVM Zrt. covers the following areas: production of electricity, management of electricity transmission systems, trade of electricity, gas infrastructure, trade of gas, technological services and information communication technologies. As headquarters, MVM Zrt. fundamental duty is to perform activities of strategic control and monitoring over its economic organisations. This activity includes strategic planning and decision making, supervision of the members of the group, as well as the central cash and property management of the holding. The public shareholding of MVM Zrt. is part of the national assets, and is a national asset of prime importance for the national economy. Preserving energy security puts the public services provided by MVM Zrt. and MVM Group in the focus of public interest.

Topic No.: 18

Type of the audit: compliance and performance audit

AUDIT ON ASSET MANAGEMENT RELATED TO STATE-OWNED CULTURAL ASSETS

Objective of the audit: to assess whether the task performance of the operation of owners, the sectoral controllers and supervisory bodies related to the protection of the value, the expansion, the preservation of the good condition and the proper utilisation of state property falling in the scope of cultural property was in compliance with regulations, and furthermore, whether the cultural national assets were registered in compliance with regulations.

Justification of the audit and expected results: According to Act CXL of 1997 on museum institutions, public library services and community culture, any outstanding or characteristic, material, visual, written and other evidence (audio documents or archeological phenomena) of the formation and evolution of the animate and inanimate designs of nature, the history of mankind, the nation of Hungary and the people of the country, as well as artistic creations belong to the scope of cultural assets. According to Act CXCVI of 2011 on national assets and state property, 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 cultural engagement of the State includes the management of culture (in relation to the operational management and supervisory powers of the industry), the central budgetary institutions (ministries, the central office and its support organisations) and their regional authorities, the respective task performance of which are established under sectoral laws and ministerial decrees. In order to ensure regular property management of national cultural assets kept by the public collections maintained by the state that fall within the scope of national/state property, the audit shall cover the regularity of the related (typically regulatory, control and authorisation, and approval) tasks carried out by the owners, the sectoral controllers and supervisory bodies in relation to the maintained organisations. Previous audits carried out by the SAO shed light on the shortcomings related to the registration and rental activities of national cultural assets, because the preservation and physical protection of cultural assets were not insured.

As a result of the audit, experience will be gathered for legislation on the regulation of entities managing state-owned cultural assets. With its findings, recommendations, and advice based on its audit experience, the State Audit Office of Hungary may assist in the improvement of the regulation and regularity of property management of budgetary institutions. This allows us to get a comprehensive overview not only of the shortcomings of the entities managing state-owned cultural assets, but also of the good practices.

Type of the audit: compliance and performance audit

THE AUDIT OF THE EMERGENCY MEDICAL SERVICE PROVIDER SYSTEM

Objective of the performance audit: to assess, based on the evaluation of the results of the management body's surveys, whether the goals of the organised 'emergency' medical service provision (as a public service) were achieved, and whether the users were satisfied with the medical services provided.

Justification of the audit and expected results: Every person has a statutory right to receive life-saving care in an emergency, and care to prevent serious or permanent impairment to health. The purpose of emergency medical services is to ensure equal access to health care of the same quality, within the same time interval to every person, wherever they may live. Emergency medical services are not limited to medical rescue, general practitioner on-duty services or emergency hospital services, but rather are considered to be a form of medical care with unified approach. The development of emergency patient care has long been an item in the long-term development programs of the health care sector.

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. Within the framework of the performance audit of emergency care, we wish to survey the experiences of the participants of the health care environment, with the method of evaluation.

Findings of the audit give the society, the agents providing the public service and the legislators a picture on whether the emergency services functioned effectively in the audited period according to the population, as recipient of the emergency care public service.

Topic No.: 20

Type of the audit: compliance and performance audit

THE AUDIT OF THE CONTROL SYSTEM OF PUBLIC EDUCATION

Objective of the audit: to assess whether the establishment and operation of the control system concerning the area of public education, as well as the planning and implementation of controls were conducted in compliance with the applicable provisions of law. Furthermore, whether pedagogical-professional audits and measurements resulted in changes in the area of public education.

Justification of the audit and expected results: Education can determine the social, economic, cultural level of a country in the long run and contribute to the competitiveness of the economy. The Public Education Development Strategy for 2014-2020 states that the objective to improve the quality, efficiency and effectiveness of education is established in Act CXC of 2011 on national public education (hereinafter: national public education act). According to the strategy, the purpose of the education development program is to establish an equitable quality public education system, guaranteed by the state as a public service, that prepares young people who are capable of adapting to successfully participate in the labour market/higher education/lifelong learning in the European and global socio-economic sphere. According to the provisions of the national public education act, in this audit of the SAO, the “*area of public education*” shall cover primary, secondary, secondary vocational, secondary technical and skill development school education provided on the basis of the National core curriculum (hereinafter: NCC) – regardless of the proprietor of individual institutions – ensured by the right to free and compulsory primary education, free and generally accessible secondary education established by the Fundamental Law of Hungary, and provided by the state of Hungary under its public service remit.

The national public education act specifies three forms of the audits on institutions, regardless of the proprietor of institution, namely pedagogical-professional, legality and official audits. Professional (pedagogical) audits performed in the field of education, based on appropriate methodology, may ensure that the system established is suitable to perform the educational tasks specified in the national public education act, and they also contribute to quality education. Thus, the audits shall not cover the legality audits of proprietors and the official audits of public education institutions also specified in the national public education act. Nor shall they cover the control system of the vocational training system specified in Act CLXXXVII of 2011 on Vocational Training, nor the financial, labour and other audit assignments also applicable to public education institutions, required for by other legal regulations, as these audits are not closely related to the professional tasks concerning education specified in the public education act, nor to the attainment of professional goals in the sector.

The audit is justified by the fact that the SAO has not previously conducted an audit of this approach, furthermore, that the quality of the performance of public education tasks, and the situation of teachers is a matter of constant public interest.

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 type of the audit: performance audit

AUDIT ON THE MEASURES TAKEN TO IMPROVE THE CIRCUMSTANCES OF PEOPLE LIVING BELOW THE POVERTY THRESHOLD

Objective of the audit: to assess whether the objectives of the strategies and the planned measures ensured reaching the objectives related to improving the circumstances of the people living below the poverty threshold. Whether the implementation of the measures and the regulatory and organisational framework established had contributed to the achievement of the goals set in the strategies. Whether the monitoring and reporting system developed had ensured the continuous follow-up of the realisation of the strategy and the complete and up-to-date availability of the information.

Justification of the audit and expected results: In 2011, one third or approximately 3 million people of the Hungarian population lived below the poverty threshold. Hardships related to poverty, poor living and housing conditions, health care problems, low level of education and unemployment bear an impact on the operation and development of the entire society. To that end, reducing the number of people living in poverty is the common goal of all of society. Related to the objectives of the Europe 2020 Strategy, the objective set by Hungary was decreasing the rate of the population living in poverty or in social exclusion by 5 percentage points by 2020.

The audit may shed light on how the strategies aiming to mitigate poverty as well as the measures related to the same influence the rate of population living in poverty or in social exclusion as well as the implementation of the factors related to the same, and may pinpoint the deficiencies and weaknesses with the management and change of which the objectives can be implemented more effectively.

In the course of planning its audits, the SAO takes into consideration the sustainability objectives adopted by the United Nations General Assembly, also considered a priority by the INTOSAI community. The elimination of poverty is ranked first amongst the objectives of Sustainable Development.

The audit is substantiated by the fact that the SAO has not carried out audits addressed to the measures pertaining to the mitigation of poverty and encompassing the entire field.

Topic No.: 22

Type of the audit: compliance audit

**AUDIT ON THE INTEGRITY OF LOCAL GOVERNMENTS OF
VILLAGES AND TOWNS**

Objective of the audit: to assess whether the audited body assessed the risks related to integrity arising in the course of its task performance properly, whether it established the integrity controls mitigating these risks and whether the means of control also includes the process or area affected by risks.

Justification of the audit and expected results: The State Audit Office of Hungary has identified local governments in general as a high-risk group in its previous integrity surveys. The local governments of smaller settlements are especially exposed to risks, as their control environment and integrity infrastructure are less established also based on the findings of the survey. Up until now, the State Audit Office of Hungary has carried out the evaluation in the framework of the integrity audit based on the audit methodology of the internal control system, and not based on a separate methodology. Therefore, it is necessary with regard to the foregoing that in the case of local governments exposed to integrity risks to a significant extent, the SAO also evaluate the inclusion of risky areas and activities in the controls in addition to the availability of the same.

The audit of the State Audit Office of Hungary contributes to improving the establishment and operation of integrity controls of the local governments of villages and towns as well as their institutions, and thus to reducing the vulnerability of local governments in terms of integrity (diversified public task performance, the provision of public services, as well as the procurements and public procurements necessary for the same, the public power activities of local governments, the wide system of relationships established with clients and the private sector).

Type of the audit: compliance audit

**AUDIT ON THE INTEGRITY OF BUSINESS ASSOCIATIONS IN THE
MAJORITY OWNERSHIP OF THE STATE OR A LOCAL
GOVERNMENT**

The objective of the audit: to assess whether the audited entity has defined the values, principles and objectives ensuring the unity of organisational culture in the course of its task performance, and whether it has assessed the risks related to integrity arising in the course of its operation and bearing an impact on the achievement of such objectives. To determine whether the audited entity established and operated an integrity management / integrity risk management system, and whether it has established the integrity controls mitigating integrity risks as part of the foregoing, and whether these means of control included the risky processes and areas.

Justification of the audit and expected results: The SAO of Hungary also conducted an integrity survey amongst business association in public ownership in the years 2016-2017, the results of which showed that there are quite significant differences between the specific business associations in terms of the establishment of integrity controls, and a substantial part of these differences can be traced back to the differences in the attitudes of the managements of such business associations. Fundamental Law defines basic values and principles, according to which organisations owned by the state or local governments manage their affairs in a manner determined in the law, autonomously and responsibly, according to the requirements of lawfulness and effectiveness. Every organisation managing public funds shall be obliged to publicly account for its management of such funds. Public funds and national assets shall be managed according to the principles of transparency and the purity of public life.

The audit of the State Audit Office of Hungary contributes to improving the level of establishment and operation of the integrity controls of business associations in public ownership applied in the framework of the integrity management / integrity risk management system and thus to reducing their vulnerability related to integrity.

Topic No.: 24

Type of the audit: compliance audit

AUDIT OF MINORITY STATE OWNERSHIP

The objective of the audit: to assess whether the person exercising the owner's rights acting on behalf of the state performed its tasks properly, and whether it exercised its rights set out in provisions pertaining to the protection of minorities when it became necessary. With regard to business associations with minority state ownership, whether the activities aimed at the maintenance and increase of property value of the person exercising the owner's rights were adequate.

Justification of the audit and expected results: Section 5 (4) of the SAO Act provides for the possibility of an audit on the activities of state-owned organisations (or organisations of public shareholding) aimed at the maintenance and increase of property value. Since state-owned (and partly state-owned) economic enterprises form part of national property, their audit is of key importance in view of the management, preservation and protection of national property.

The ownership structure of business associations with minority state ownership is diverse: in addition to minority state ownership, local government and state-owned or local government-owned business associations may also occur. As a result, there are companies, in the case of which the business associations with minority state ownership are in majority national ownership.

The state does not have dominant influence over the operation and financial management of business association with minority state ownership, however, the effectiveness of their operation bears an impact on national assets, and the potential loss-making financial management, or obligation to supply additional capital also means a financial risk for the state.

The audit of business associations with minority state ownership may explore the potential deficiencies of the transparent, intended and responsible use of state property in relation to the concerned assets.

Type of the audit: compliance and performance audit

**AUDIT OF THE NATIONAL FUND OF FAMILY AND SOCIAL POLICY
AFFAIRS**

Objective of the audit: to assess whether the task performance were controlled and regular, whether adequate controls were established and operated to ensure compliance with regulations, whether information systems were capable of ensuring the regular performance of tasks, whether the transfer of tasks were compliant with legislation, whether the process and execution of task performance ensured the satisfaction of the stakeholders of allowances and benefits, and whether the government agencies have taken action to address the deficiencies identified in relation to family allowances.

Justification of the audit and expected results: The National Fund of Social Policy Affairs contains specific groups of social benefits, as well as the early pensions deducted from the Pension Insurance Fund. Within this framework, the National Fund of Family and Social Policy Affairs contains family allowances, benefits paid to people below the standard age, income replacement and supplementary income benefits, as well as other benefits under various titles. The creation of the Fund was conceived to create a more transparent and calculable system by reducing the number of benefits and simplifying the benefit system, as all the benefits are integrated into one fund. With regard to the NFFSPA, from claims to disbursement, tasks are performed by the government offices and the Hungarian State Treasury.

Audits of the final accounts for the past years have respectively shown that accounted expenditures declared for the NFFSPA were not reliable. An identified risk was that the verification of legality and accountability prior to the payment of family allowances was not ensured by the competent organisational units of government offices.. The audit on the comprehensibility of documents substantiating the disbursement of family allowances was not performed.

Accordingly, a follow-up audit will be performed on the execution of tasks provided for in the action plans of the Budapest and county government offices, and the Hungarian State Treasury.

Topic No.: 26

Type of the audit: compliance and performance audit

**AUDIT ON THE CONTRIBUTION OF THE PUBLIC DEBT MANAGEMENT
ACTIVITY TO REDUCING THE GROSS EXTERNAL DEBT OF HUNGARY**

The objective of the audit: to assess whether public debt management (by the responsible bodies) successfully contributed to reducing the gross external debt of Hungary.

Justification of the audit and expected results: The management of public debt is conducted by the Government Debt Managing Agency under the direction of the minister responsible for budgetary affairs. The Debt Managing Agency shall continue its activity of public debt management according to an annual debt financing plan, within the framework of public debt management strategy approved by the minister. The financing plan could change several times over the course of the year.

The stability, productivity and sustainability of the Hungarian economy is crucial for the country, and the external vulnerability and the rate of public debt continue to decline as result of the strategic decisions in this respect. Within the framework of its analysis, the SAO examined the evolution of Hungary's gross external debt and the factors that have an impact on it. According to the findings of the analysis, the improvement of gross external indebtedness had been aided by the fact that domestic savings are increasingly involved in the financing of public debt, with the result that the share of foreign financing is decreasing. The audit is justified by the need to deepen the understanding of the context of change, to fortify favourable processes, to identify possible risks, as well as to objectively inform the National Assembly and the general public.

Type of the audit: compliance audit

**AUDIT ON THE BUDGET HEADINGS BELONGING TO THE
CENTRAL SUBSYSTEM OF THE
NATIONAL BUDGET**

Objective of the audit: to assess whether the establishment of budgetary chapters, chapter-managed appropriations and the operational and organisational frameworks of the institutions governing the chapters was regular, and whether the financial management was implemented with due transparency and accountability.

Justification of the audit and expected results: In accordance with the Act on Public Finances, the central budget is divided into chapters. The chapters are established by the Act on the Budget. The ministries, certain bodies with national scope of competence and the settlements of the budget form chapters in the central budget.

The SAO audits the implementation of the annual budget act, it audits, among others, the financial management and operation of budgetary institutions for the purpose of managing the risks identified with the continuous risk assessment of the risks explored during the audit and the area in order to support the regular financial management of the audited entities with the findings of the audits, to promote the prevalence of the basic postulates set out in the Fundamental Law in the everyday operation of institutions with its recommendations. With its conclusions, the SAO facilitates the responsible financial management of public funds by the auditees and, with the audits using a novel approach, it contributes to establishing and maintaining a system that creates values.

The audit is carried out on the basis of risk assessment of the budget chapters and of the institutions belonging to the budget chapters, taking into consideration the specific and substantial characteristics. The audit focuses on several areas, including the internal control system, integrity, cash and property management, investments, chapter-managed appropriations and management.

Topic No.: 28

Type of the audit: compliance audit

AUDIT ON THE PUBLISHING AND DEPOSITING OF REPORTS

Objective of the audit: to assess whether the requirement for transparency prevailed during the depositing and publishing of the annual reports of economic organisations using public funds and assets, as well as the task performance of entity responsible for the recording and providing the reports to the public, and whether the protection of public funds and national assets was insured.

Justification of the audit and expected results: An entrepreneur registered in the business register may fulfil its deposit and disclosure obligation by submitting the annual report or simplified annual report approved by the authorised body, or in the cases where statutory audits are required, the independent audit report containing an audit opinion or the refusal to grant an opinion, as well as the decision to use profits after taxation, to the company information service electronically, in the manner specified by law.

Civil organisations are required to draw up reports on their operation, property, finances and income on the final day of that fiscal year. Non-profit civil organisations and civil organisations aiming to obtain non-profit status are also required to submit with their report an annex of public benefit. The civil organisation is required to deposit its annual report and the annex of public benefit until 31 May every year by submitting the report and the annex of public benefit to the National Office for the Judiciary.

During our audits, we found that a significant number of the audited state-owned business associations, as well as the civil organisations receiving state or municipal public funding fail to comply or adequately comply with their statutory obligation to disclose annual reports.

Every organisation managing public funds shall be obliged to publicly account for its management of public funds. Public funds and national assets shall be managed according to the principles of transparency and the purity of public life. Data relating to public funds and national assets shall be data of public interest. Depositing and publishing annual reports ensure the accessibility of the data of the registered organizations and thus contributes to the compliance with the requirement of publicity.

The audit may show the adequacy of controls, the conformity of relevant legal provisions, the existence of factors that ensure the enforcement of the principles set out in the Fundamental Law.

II.

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

Type of the audit: compliance audit

2018 ANNUAL FINAL ACCOUNTS

Compliance audit on the implementation of the 2018 central budget of Hungary

The objective of the audit: is to determine whether the content, structure of the final accounts bill complied with the statutory requirements, whether the provisions of the Fundamental Law and of the law on the economic stability of Hungary related to public debt were met, whether the change in the deficit in the central budgetary subsystem complied with the requirements of the Act on the central budget of 2018 (Budget Act). Whether the revenues of the public finances were used in compliance with the statutory requirements related to the management of public funds as determined in the Budget Act, whether the bill truthfully presents the financial data and information related to the implementation of the budget; whether the implementation of the revenue appropriation and expenditure appropriation of the central budget complied with the statutory requirements or if it contains material deficiencies; whether the persons with authorisation and competence to implement the budget managed public funds regularly in the financial framework determined in the central budget for 2018.

The audit covers the monitoring of the budgetary processes of 2018, in particular the monitoring of the factors that impact the change of the public debt.

Justification of the audit and expected results: According to the Fundamental Law, the audit of the implementation of the central budget is performed by the SAO. According to the provisions of the SAO Act, the SAO is responsible for carrying out the audit of the final accounts annually. The SAO, by fulfilling its statutory obligation, makes it possible for the National Assembly to make a substantiated decision on the adoption of the Final Accounts Act. The result of the audit provides a comprehensive and objective picture on the reliability of the data provided in the final accounts bill for the year 2018. With its conclusions, the SAO facilitates the responsible financial management of public funds by the auditees and, with the audits, it contributes to establishing and maintaining a system that creates values.

The final accounts include the inspection of the funds used to prepare and conduct the 2018 parliamentary elections and parliamentary by-elections.

Topic No.: 30/1

The type of the audit: regularity audit

**REGULARITY AUDIT ON THE ACTIVITIES RELATED TO THE
EXERCISE OF PROPRIETARY RIGHTS OVER STATE
PROPERTY**

Objective of the audit: to assess whether the entities that exercise of proprietary rights of the State had exercised their proprietary rights in compliance with the applicable legislation.

Justification of the audit and expected results: According to Section 3 (4) of Act CVI of 2007 on state property, the SAO audits the exercise of proprietary rights over state property every year. Section 14 (1) of Act LXXXVII of 2010 on the National Land Fund provides for the annual supervision of activities related to the exercising of proprietary rights over the National Land Fund.

In accordance with its legal obligation, the State Audit Office of Hungary, in order to facilitate responsible management of public property, annually audits the task performance of the entities that exercise proprietary rights over state property, which covers a significant portion of national assets. With its audits, the SAO may contribute to the enhancement of controls over state property, and responsible, regular asset management, the improvement of the performance of tasks aimed at the preservation of state property and their utilisation for the common good.

Several organisations are involved in the exercise of proprietary rights, the legal status, organisational structure, financial management and operation of which differ from one another. Parties concerned with activities related to the exercise of proprietary rights over state property had changed with reference to 2017. In 2018, there has been a major restructuring with regard to the person responsible for the supervision of state property, and the implementation of tasks related to exercising proprietary rights over state property. Up until 21 May 2018, Gov. Decree No. 152 of 2014 (VI. 6.) on the competences of members of the Government had classified the supervision of state property and the regulation of financial management of state property as a competence of the Minister for National Development. From 22 May 2018, the minister without portfolio responsible for national assets shall be responsible for the supervision of state property, as well as the regulation of financial management of state property.

As result of the audit, the SAO forms an opinion on whether the operation and management of state property assets of the entities involved in the exercising of the proprietary rights of the Hungarian State were in compliance with the provisions of the laws relating to state property. The audit may identify any regulatory issues and shortcomings related to the activity of exercising rights over state property, thus contributing to the enhancement of controls over state property, as well as responsible, regular asset management.

Type of the audit: compliance audit

**REGULARITY AUDIT ON THE ACTIVITIES RELATED TO THE
EXERCISE OF PROPRIETARY RIGHTS OVER STATE
PROPERTY**

Objective of the audit: to assess whether the entities that exercise of proprietary rights over state property had exercised their proprietary rights in compliance with the applicable legislation. Furthermore, to assess whether the audited entities fulfilled the tasks defined in the action plan for the findings requiring measures to be taken, concluded in the audit report of 2016 on the exercise of proprietary rights over state property.

Justification of the audit and expected results: According to Section 3 (4) of Act CVI of 2007 on state property, the SAO audits the exercise of proprietary rights over state property every year. Section 14 (1) of Act LXXXVII of 2010 on the National Land Fund provides for the annual supervision of activities related to the exercising of proprietary rights over the National Land Fund.

In accordance with its legal obligation, the SAO, in order to facilitate responsible management of public property, annually audits the task performance of the entities that exercise proprietary rights over state property, which covers a significant portion of national assets. In 2018, there has been a major restructuring with regard to the person responsible for the supervision of state property, and the implementation of tasks related to exercising proprietary rights over state property. In Gov. Decree No. 1 of 2018 (VI.25.) on the Minister without portfolio in charge of National Assets (NVTNM) of 2018, the minister without portfolio responsible for the management of national assets designated the persons who exercise all proprietary rights and obligations of the state over each state-owned business association. As of 31 December 2018, the decree designates 12 ministers, 14 central budgetary institutions, 3 business associations (beside MNV Zrt. and MFB Zrt.) and the government commissioner responsible for coordinating the sovereign tasks performed by Nemzeti Ménesbirtok és Tangazdaság Zrt. of Mezőhegyes as the practitioners of proprietary rights over state-owned business associations.

As result of the audit, the SAO forms an opinion on whether the operation and management of state property assets of the entities involved in the exercising of the proprietary rights of the Hungarian State were in compliance with the provisions of applicable legislation relating to state property. The audit may identify any regulatory issues and shortcomings related to the activity of exercising rights over state property, thus contributing to the enhancement of controls over state property, and responsible, regular asset management, as well as to the improvement of the performance of tasks aimed at the preservation of state property and their utilisation for the common good. The performance of tasks established in the action plan relating to the findings disclosed in the audit report on the exercising of proprietary rights over state property will also be audited.

Topic No.: 31

The type of the audit: regularity audit

REVIEW OF THE LOCAL GOVERNMENT DECREE ON THE DIVISION OF THE REVENUES DUE TO AND SHARED BY THE BUDAPEST MUNICIPALITY AND THE BUDAPEST DISTRICT LOCAL GOVERNMENTS IN 2019.

The objective of the audit: auditing the division of the revenues shared by Budapest Municipality and the district municipalities in 2019, and the regularity of determining and settling the expenses related to local taxation, required by law to be carried out on an annual basis.

Justification of the audit and expected results: The scope of the revenues shared by the Budapest Municipality and the local governments of the districts as well as the rules of resource allocation are determined by Act CXXXIII of 2006 on the Allocation of Resources between the Budapest Municipality and the District Local Governments. As stipulated by the law, the SAO revises the resource allocation decree of the Budapest Municipality for the current year. If the SAO finds that the Budapest Municipality or any of the district local governments have received resources unlawfully or received resources less than they are lawfully entitled to, the Budapest Municipality, in a decree, shall amend the resource allocated for the year following the closing of the supervision as determined on the basis of the resource allocation act.

The output of the audit is expected to be utilised at four levels. The legislation has experiences at its disposal concerning the regulation of resource allocation and the regularity of the resource allocation decree, and conclusions can be drawn as to whether initiating the amendment of the legislation is justifiable. The audit provides feedback to the auditees on the regularity of the implementation of resource-sharing and with its recommendations it contributes to the elimination of any deficiencies. It demonstrates to society that not even the planned division of public funds can be left unaudited, and SAO's activity, which contributes to establishing and maintaining a value-creating order, will have a positive impact on the image of the organization. Within the organization of the SAO, it allows the institution to strengthen its added value-creating activity and counselling role.

The type of the audit: **regularity audit**

**AUDIT ON THE USE OF FUNDS SPENT ON THE 2019 ELECTION OF
LOCAL GOVERNMENT REPRESENTATIVES, MAYORS AND MINORITY
LOCAL GOVERNMENT REPRESENTATIVES**

Objective of the audit: to establish whether the planning, use, accounting and control of funds spent on the 2019 elections of local government representatives, mayors and minority self-government representatives were compliant with regulations.

Justification of the audit and expected results: The audit focuses on the regular use of the funds spent during the preparation and conduct of the elections. As result of the audit, we form an opinion whether the use of funds - provided by the central budget - by the audited entities during the preparation and conduct of the elections in the audited areas was compliant with the provisions of the legislative environment relating to the election procedure, by which the SAO fulfils its obligation to inform the National Assembly as required by law. With the audit, the SAO intends to provide a comprehensive overview about the legally compliant planning, utilisation, accounting and controlling of the funds used by the entities involved in the audit during the preparation and the conduct of the elections. With the audit, we may identify any regulatory issues related to the funds used up during the preparation and the conduct of the elections, therefore the audit may contribute to the reinforcement of the controls over the funds used up during the preparation and the conduct of the elections. With its related findings, the SAO may facilitate and support legislative and regulatory work. Our audit may lay the foundations for the revision of the statutory requirements, internal regulations, rules of procedure regulating the activities of the entities participating in the exercise of rights. By demonstrating any regulatory and control-related deficiencies revealed, the audit contributes to the rectification thereof, supports the operation of the “*well-managed state*” and indirectly reinforces public trust in the use of public funds during the preparation and the conduct of the elections.

Topic No.: 33

The type of the audit: regularity audit

**FINANCIAL REGULARITY AUDIT ON THE LEGALITY OF THE 2016-2017
FINANCIAL MANAGEMENT OF PARTY FOUNDATIONS RECEIVING
CENTRAL BUDGET SUPPORT**

- 33/1 Financial regularity audit on the legality of the 2016–2017 financial management of Szövetség a Polgári Magyarorszáért Alapítvány (Foundation for a Civic Hungary)
- 33/2 Financial regularity audit on the legality of the 2016–2017 financial management of Barankovics István Foundation

Objective of the audit: to assess the legality of the financial management of the party foundation, the compliance of annual accounting reports and party foundation’s annual activity reports with the legal requirements, as well as compliance with the relevant statutory provisions and internal regulations in the course of bookkeeping and financial management. Furthermore, to assess whether the audited entity fulfilled the tasks specified in the action plan drawn up in accordance with the findings requiring actions concluded in the previous audit report.

Justification of the audit and expected results: The value-based and proper use of public funds, the establishing of transparency for subsidies provided from public funds is a social requirement which can be realized by auditing the subsidies provided from public finances. Based on Section (4) of Act XLVII of 2003 on the Foundations Supporting the Operation of Parties Carrying out Scientific, Educational, Research and Educational Activities, the SAO is authorised to conduct financial regularity audits on the legality of foundations, furthermore, based on the provisions of the SAO Act, the SAO is authorised to conduct a follow-up audit to assess the implementation of the action plan based on the findings requiring actions concluded in the audit reports. On the basis of its legal obligation, the SAO biennially examines the financial management of foundations of political party that were subsidised from the central budget under this law.

By displaying the legality of financial management, the audit contributes to allowing the society to gain an objective insight into the operation of party foundations. The result of the audit may facilitate that the findings, conclusions and recommendations contained in the report will promote that the legislators take concrete action in terms of changing and increasing the transparency and controllability of the regulations related to the funding of party foundations. At the level of the audited entities, the identification of any deficiencies and irregularities and the findings determined in connection with them may reduce the risk in the regularity of the operation and may promote the regular financial management of the party foundations. By demonstrating the regularity of the financial management, the audit contributes to the attainment of the goals of the SAO through value creation.

The type of the audit: **regularity audit**

**FINANCIAL REGULARITY AUDIT ON THE LEGALITY OF THE 2017-2018
FINANCIAL MANAGEMENT OF PARTY FOUNDATIONS RECEIVING
CENTRAL BUDGET SUPPORT**

34/1. *Financial regularity audit on the legality of the 2017-2018 financial management of Magyar Szocialista Párt (Hungarian Socialist Party)*

34/2. *Financial regularity audit on the legality of the 2017-2018 financial management of Jobbik Magyarországért Mozgalom (Movement for a Better Hungary)*

34/3. *Financial regularity audit on the legality of the 2017–2018 financial management of the Lehet Más a Politika (Politics Can Be Different)*

34/4. *Financial regularity audit on the legality of the 2017-2018 financial management of Demokratikus Koalíció (Democratic Coalition)*

34/5. *Financial regularity audit on the legality of the 2017-2018 financial management of Együtt – Korszakváltók Pártja (Together – Party for a New Era)*

34/6. *Financial regularity audit on the legality of the 2017-2018 financial management of Magyar Liberális Párt (Hungarian Liberal Party)*

34/7. *Financial regularity audit on the legality of the 2017-2018 financial management of Párbeszéd Magyarországért Párt (Dialog for Hungary Party)*

Objective of the audit: to assess whether the financial statements disclosed were in compliance with statutory requirements, and whether the relevant legal and internal requirements in bookkeeping and financial management were adhered to, and whether the party used legitimate and eligible resources for its operation; furthermore, whether the party took action to address deficiencies detected by the previous SAO audit, and the regularity of cases identified as essential on the basis of risk signals.

Justification of the audit and expected results: Based on Clause (a) of Section 5 (11) of Act LXVI of 2011 on the State Audit Office of Hungary, and Section 10 (1) of Act XXXIII of 1989 on the Operation and Financial Management of Political Parties, the SAO is authorised to conduct financial regularity audits on the legality of parties. On the basis of its legal obligation, the SAO biennially examines the financial management of the political parties that were subsidised from the central budget on a regular basis. The scope of the audit may include auditing the regularity of additional important areas based on risk indicators and depending on the risk assessment until the date of commencement of the audit, taking into consideration the legal requirements and the public methodology published by the SAO.

Presenting the regularity of financial management and the volume of the public funds used may help society form an objective picture about the operation of the political parties. By demonstrating the compliance of financial management, the audit findings may encourage legislators to implement concrete measures in order to change the regulations relating to party funding, making them more transparent and more controllable. The audit may identify good practices and irregularities in connection with the financial management of political parties and the use of funds originating from the state budget. Revealing any deficiencies and irregularities and determining the relevant findings may facilitate the sanctioning of the violation of statutory provisions. Another outcome of the audit is an assessment of the utilisation of the warnings of the previous SAO audit.

Topic No.: 35

The type of the audit: regularity audit

**FINANCIAL REGULARITY AUDIT ON THE LEGALITY OF THE 2017–2018
FINANCIAL MANAGEMENT OF PARTY FOUNDATIONS RECEIVING
CENTRAL BUDGET SUPPORT**

35/1. Financial regularity audit on the legality of the 2017-2018 financial management of Táncsics Mihály Foundation 35/2. Financial regularity audit on the legality of the 2017-2018 financial management of 'Jobbik Magyarországért Alapítvány' (Foundation for a Better Hungary)

35/3. Financial regularity audit on the legality of the 2017–2018 financial management of Ökopolisz Foundation 35/4. Financial regularity audit on the legality of the 2017-2018 financial management of 'Új Köztársaságért Alapítvány' (Foundation for a New Republic)

35/5. Financial regularity audit on the legality of the 2017–2018 financial management of Váradi András Foundation 35/6. Financial regularity audit on the legality of the 2017-2018 financial management of 'Liberális Magyarországért Alapítvány' (Foundation for a Liberal Hungary)

35/7. Financial regularity audit on the legality of the 2017-2018 financial management of 'Megújuló Magyarországért Alapítvány' (Progressive Hungary Foundation)

Objective of the audit: to assess the legality of the financial management of the party foundation, the compliance of annual accounting reports and party foundation's annual activity reports with the legal requirements, as well as compliance with the relevant statutory provisions and internal regulations in the course of bookkeeping and financial management. Furthermore, to assess whether the audited entity fulfilled the tasks specified in the action plan drawn up in accordance with the findings requiring actions concluded in the previous audit report.

Justification of the audit and expected results: The value-based and proper use of public funds, the establishing of transparency for subsidies provided from public funds is a social requirement which can be realized by auditing the subsidies provided from public finances. Based on Section (4) of Act XLVII of 2003 on the Foundations Supporting the Operation of Parties Carrying out Scientific, Educational, Research and Educational Activities, the SAO is authorised to conduct financial regularity audits on the legality of foundations, furthermore, based on the provisions of the SAO Act, the SAO is authorised to conduct a follow-up audit to assess the implementation of the action plan based on the findings requiring actions concluded in the audit reports. On the basis of its legal obligation, the SAO biennially examines the financial management of foundations of political party that were subsidised from the central budget under this law.

By displaying the regularity of financial management, the audit contributes to allowing the society to gain an objective insight into the operation of party foundations. The result of the audit may facilitate that the findings, conclusions and recommendations contained in the report will promote that the legislators take concrete action in terms of changing and increasing the transparency and controllability of the regulations related to the funding of party foundations. At the level of the audited entities, the identification of any deficiencies and irregularities and the findings determined in connection with them may reduce the risk in the regularity of the operation and may promote the regular financial management of the party foundations. By demonstrating the regularity of the financial management, the audit contributes to the attainment of the goals of the SAO through value creation.

