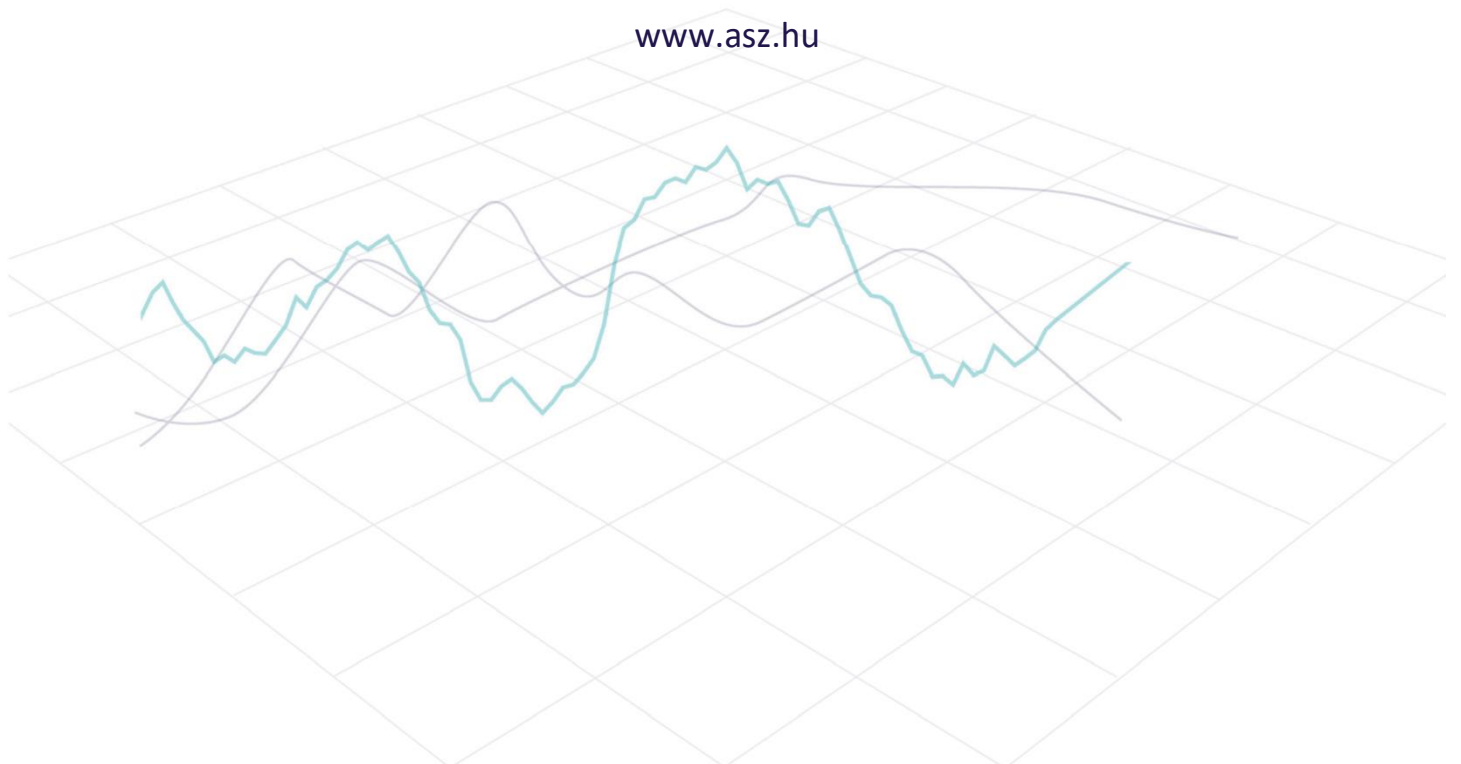


STATE AUDIT OFFICE OF
HUNGARY

AUDIT PLANNING MEMORANDUM

second half of 2020

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STATE AUDIT OFFICE OF HUNGARY

AUDIT PLANNING MEMORANDUM

second half of 2020

TV-0728-001/2020.

Approved by:
László Domokos
President

Budapest, July, 2020

Our audit reports are available on the computer network of the National Assembly and on the Internet on our website at www.asz.hu.

Introduction

The State Audit Office of Hungary (SAO) is the financial and economic audit organization of the National Assembly and an independent key institution of the democratic state organization.

A safeguard provision in Act LXVI of 2011 on the State Audit Office of Hungary (hereinafter as SAO Act) is that it shall pursue its activity in accordance with an audit planning memorandums approved by its President. The SAO shall provide its audit planning memorandum to the National Assembly and publish it on its website. Within its responsibilities defined by law, the SAO supports the work of the National Assembly, its committees and the audited entities with its conclusions and recommendations. The provisions of the Fundamental Law and of the SAO Act guarantee the transparency of the audit activity of the SAO.

According to the provisions 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. The SAO defines the rules and methods of the audit procedures on its own, the frequency of the audits is defined by the law or, in the absence of a legal regulation, the President of the SAO.

Accordingly, the biannual audit planning memorandum of the SAO is composed of three sections:

- I. Mandatory audit assignments to be carried out at a frequency required by law or audit assignments connected to other events,
- II. Other, mandatory audit assignments to be carried out based on legislative authorisation and
- III. Audit topics selected on the basis of risk analysis with regard to materiality.

During the preliminary work that precedes the identification of the topics selected based on the results of the risk analysis and assessment as well as the selection of the related audit sites, the SAO shall analyze the inherent risks of each field based on its audit experiences. The SAO utilizes the data and facts obtained by it based on information, indications and other documents sent to it in the course of its ongoing audits or in the planning of such audits.

As a fundamental requirement for efficient and high-level task performance, the SAO improves its audit methodologies by considering practical experiences, international methodological standards and recommendations. In the second half of 2020, the SAO will perform audits by using the methods of compliance and performance control, in order to ensure the transparent and accountable use of public funds and public property. Compliance audits contribute to the compliance of the audited organizations and their activities with the relevant statutory regulations, provisions 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 course of the implementation of the audits, the SAO takes document-based approaches, which it develops on a continuous basis based on the opportunities offered by digitization. The document-based approach ensures that the audit findings be based on evidence, the documents generated and available in the audited period, thus reconstructing the facts of the given period. The document-based, evidence-driven audit further ensures the objective evaluation of the audited entity according to the same criteria.

In order to increase the audit coverage of certain areas and to reduce the workload on the audited

organizations, audits of new technology will be continued in the second half of 2020. In order to cover a substantial population, beyond local governments, the audits are extended to municipal institutions, central budgetary institutions and nationally owned business associations, foundations and other organizations.

The fundamental mission of the SAO is to foster the transparency and organization of public finances through its value-creating audits based on solid professional grounds and to contribute to operation of the well-managed state. Accordingly, the SAO set it as a primary strategic goal that the utilization of its audit activity be visible in the reinforcement of public confidence, in the changes of public approach and in the improvement of the audited entities, in its assistance provided to legislative activities, as well as in the responses given to the most important socio-economic issues.

Relevant legislation requires the SAO to carry out obligatory audit assignments with a yearly or biennial frequency. Accordingly, in the second half of 2020, the *audit of the final accounts on the implementation of Hungary's 2019 central budget* will be continued as a priority assignment. In order to carry out the task efficiently and successfully, the SAO shall perform the audit by applying an audit model based on a methodology that is supported by statistical methods, which is suitable to cover the entire financial management of public finances.

Based on its legislative authorization and according to the biennial frequency, the SAO continues to audit the financial management of *political parties and party foundations receiving budget support*. In the second half of 2020, the SAO will continue auditing the lawfulness of the financial management of the political parties registered in Hungary in order to endorse a safeguard requirement deriving from the rule of law in Hungary that ensures that the legality of the financial management of every political party be audited.

In terms of auditing the handling of the assets falling within public finances, the financial management of such assets, the value-preserving and value enhancing activity of organizations, the evaluation of the *activities related to the exercising of proprietary rights over state property* carried out on an annual basis, with legal authorization is of key importance. The SAO will continue its audits for the year 2019.

In the second half of 2020, the SAO, pursuant to its statutory obligation, *starts its annual* audit of the division of *revenues shared by Budapest Municipality and the district municipalities* in 2020, as well as of the regularity of the determining and settling of expenses related to local taxation.

The performance of further audit assignments stipulated by law for the SAO shall be continued in the second half of 2020, in the form of organization audits, with respect to the same field and a predefined subject. These audits will also affect major subsections of public finances and entities that are outside of, yet closely related to public finances. In order to conduct risk analysis-based audits, the SAO puts primary emphasis on the preparation of targeted audit plans, adjusted to the specific risks attributed to the audited entities.

The aim of auditing *other organizations as per the Accounting Act* continued in the second half of 2020 is to evaluate whether the other organization has established the frameworks of its financial management in a regular manner, and whether the entity has fulfilled its annual reporting obligation and the registration obligation related to the funds received from public finances in a regular manner.

Also, the non-core activities and the financial management of the *Magyar Nemzeti Bank (Hungarian Central Bank)* acting as the second line of defense in the monetary sector will be audited from the aspect of meeting the criteria of lawful operation and the regularity of settlements related to the central budget.

With its *financial-accounting audit of the Resolution Fund*, the SAO contributes to strengthening this element of the financial stability safety net established for institutional crisis response in the financial sector. In the course of the audit, it will be assessed whether the financial management of the fund complied with the statutory requirements and the internal regulations and whether its accounting system ensured that accounts were prepared regularly.

During its audits and fulfilling its legal obligations, the SAO places great emphasis on assessing the operation of the internal control system of public finances and the accounting rules of public finances.

In order to conduct efficient and practical audits, the audit of local governments, central budgetary institutions and nationally owned business associations will continue in the second half of 2020 with the application of subject-specific program units, established in the course of preliminary risk analysis. In these fields, the SAO will focus on areas of activities where its recommendations can have the greatest wide-ranging social benefit. In case of each of the enlisted bodies, the SAO may use performance audit modules of integrity, internal control, property management, significant investments as well as leadership and organization. Local government modules may be supplemented with a module aiming at the evaluation of the regularity of investment decisions and debt settlement procedures. There will be increased emphasis on the audit of municipal institutions in the second half of 2020. In the case of central budgetary institutions, the audit of middle management bodies is in progress; in the course thereof, the administration, financial management and property management duties and the use of the balance are also audited by the SAO.

In 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 continued in the second half of 2020, in the sites of follow-up audits, entities providing public library services, foundations/public foundations, nationally owned business associations, hospitals, vocational schools, school district centers and non-state human service providers. Risk-based audits provide an opportunity for the SAO to obtain an objective picture of the areas of risk at a wide range of organizations by categorizing the auditees on the basis of the same characteristics and evaluating the relevant documents. Based on the findings, the attention of the leaders of audited entities may be called to these areas of risk, and it also allows the in-depth audit to become even more targeted.

In the second half of 2020, the SAO will also contribute to the improvement of public finances by applying a new, monitoring-based audit approach. Monitoring-based audits, focusing on the material documents of the present stage, strengthen the advisory role of the SAO with real-time evaluation and recommendations for the future. The monitoring-based audits planned to be implemented amongst central budgetary institutions, local governments, municipal institutions, nationally owned business associations and foundations examine a typical, material area of the entire scope or a large group of these entities using public funds and public property. Using this method, audit coverage can be significantly increased, and it also allows entities using public funds and public property that have not been previously audited to be evaluated. The methodological and digital implementations, besides decreasing the workload on the audited entities, contribute to reducing the time required by audits and to increasing the efficiency of

the audits. Based on the monitoring-type audit methodology, with the evaluation of a small number of targeted documents covering a group of audited entities completely, the SAO is able to identify the risks and irregularities in financial management and by calling the audited entity's attention to such issues, it is able to improve the use of public funds, and the regularity and efficiency of the use of public property.

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 continue with which the SAO can evaluate local governments by forming groups. 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.

In the second half of 2020, the SAO will continue 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, taking into consideration the specific and material characteristics.

The SAO will continue its *follow-up audits* in the second half of 2020, too, aiming to audit the implementation of action plans prepared by the audited entity for the purpose utilizing the reports of the audit office. The follow-up audits can reveal whether the errors and deficiencies identified during the audit of the management of public funds and public properties have been abolished, whether the risk of the irregular operation of an organization has been reduced through the same and whether public finances have been improved in general.

In the second half of 2020, the audit of the nationally-owned (state- and local government-owned) *business associations* is also to be continued, having regard to the fact that these entities manage major national assets, exert a major influence on their value, the economic performance of the country, and they also influence public debt. The SAO audits also cover the task performance of the *persons exercising minority owner's rights* acting on behalf of the state. During the audit, the compliance of the task performance of the person exercising the proprietary right will be assessed. In the case of business associations, financial management leading to losses, surcharge payment obligations also pose a financial risk for the finances of the state.

In order to facilitate the lawful, responsible and efficient management of public property, in the second half of 2020 the SAO will continue the audit of the financial management and operation of institutions that have monitoring and supervisory powers themselves. The SAO will particularly focus on audits aimed at strengthening *the second line of defense*, in the framework of which it will audit the audit organizations constituting the second line of defense of local governments (capital and county government offices, Hungarian State Treasury) in multiple phases, will audit the task performance of management bodies, and within that, the performance of their management, auditing and monitoring task.

By auditing *waste management*, the SAO seeks to determine whether the establishment and operation of the regulatory and organizational system of waste management ensure that this public task is performed appropriately and efficiently.

As determined in the Fundamental Law of Hungary, everyone has the right to physical and mental health. One of the most important means of preventing epidemics is vaccination, with particular regard to massive ongoing migration and the impacts of the climate change. In the second half of 2020, the SAO will prepare an audit to assess whether the *population is*

adequately protected against contagious diseases, whether the systems in place ensure that contagious diseases that have occurred rarely or that have not occurred in the past will be prevented.

In order to avoid the severe consequences of the epidemic caused by the Coronavirus, the Government decided to introduce a new working order in public educational and vocational institutions. As part of its audit planned in the second half of 2020, the SAO will evaluate whether the task performance of public education was ensured in the framework of the "outside the classroom" *digital education* introduced during the state of emergency declared due to the epidemic. Summarizing the experiences of the application of the digital educational methods developed during the state of emergency may contribute to rethinking the development directions of the system of public education.

To achieve Hungary's energy efficiency and energy saving goals, engaging the population and making them interested in reducing their individual consumption is of utmost importance. The Hungarian energy policy handles the promotion of energy efficiency as a top priority, to which eco-conscious planning and energy labelling also contributes. To that end, in the second half of 2020, the SAO prepares an audit to evaluate the measures aimed at *eco-conscious planning and energy labelling*.

The SAO, reinforcing its advisory role mandated by law and in order to further utilize the findings of audits, prepares summary analyses of its comprehensive audit experiences gained in the case of several entities operating in the same industry. The analyses highlight the risks that exist in the activities of the entities operating in each industry audited by the SAO. On the one hand, these experiences provide an opportunity for the SAO to warn other entities operating in a particular industry by describing the irregularities that have been identified in the audited areas. On the other hand, good practices described on the basis of the audit experiences may provide guidance for non-audited entities, 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 the completion of which the organizations can get objective 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.

CONTENT

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

1. *Review of the local government decree on revenues due to and shared by the Budapest Municipality and the Budapest district local governments in 2020*
2. *Final accounts of the 2019 budget of Hungary – Compliance audit on the implementation of the 2019 central budget of Hungary (ongoing task according to the audit planning memorandum for the first half of 2020, audit subject serial no. 1)*
3. *Regularity audit on the activities related to the exercise of proprietary rights over state property (ongoing task according to the audit planning memorandum for the first half of 2020, audit subject serial no. 3)*
4. *Financial regularity audit on the legality of the 2018–2019 financial management of political parties receiving budget subsidies (ongoing task according to the audit planning memorandum for the first half of 2020, audit subject serial no. 4)*
 - 4/1. *Financial regularity audit on the legality of the 2018–2019 financial management of Fidesz – Magyar Polgári Szövetség (Fidesz– Hungarian Civic Union) (ongoing task according to the audit planning memorandum for the first half of 2020, audit subject serial no. 4/1)*
 - 4/2. *Financial regularity audit on the legality of the 2018–2019 financial management of the Kereszténydemokrata Néppárt (Christian Democratic People’s Party) (ongoing task according to the audit planning memorandum for the first half of 2020, audit subject serial no. 4/2)*
 - 4/3. *Financial regularity audit on the legality of the 2018–2019 financial management of the Momentum Mozgalom (Momentum Movement) (ongoing task according to the audit planning memorandum for the first half of 2020, audit subject serial no. 4/3)*
 - 4/4. *Financial regularity audit on the legality of the 2018–2019 financial management of the Kétfarkú Kutya Párt (Two-Tailed Dog Party) (ongoing task according to the audit planning memorandum for the first half of 2020, audit subject serial no. 4/4)*
5. *Regularity audit on the legality of the 2018–2019 financial management of party foundations receiving budget support (ongoing task according to the audit planning memorandum for the first half of 2020, audit subject serial no. 5)*
 - 5/1. *Financial regularity audit on the legality of the 2018–2019 financial management of Szövetség a Polgári Magyarorszáért Alapítvány (Foundation for a Civic Hungary) (ongoing task according to the audit planning memorandum for the first half of 2020, audit subject serial no. 5/1)*
 - 5/2. *Financial regularity audit on the legality of the 2018–2019 financial management of Barankovics István Alapítvány (Barankovics István Foundation) (ongoing task according to the audit planning memorandum for the first half of 2020, audit subject serial no. 5/2)*
 - 5/3. *Financial regularity audit on the legality of the 2018–2019 financial management of Indítsuk be Magyarországot Alapítvány (Let’s Start Hungary Foundation) (ongoing task according to the audit planning memorandum for the first half of 2020, audit subject serial no. 5/3)*

- 5/4. *Financial regularity audit on the legality of the 2018–2019 financial management of Savköpő Menyét Alapítvány (Savköpő Menyét Foundation)* (ongoing task according to the audit planning memorandum for the first half of 2020, audit subject serial no. 5/4)
6. *Audit on the use of funds spent on the 2019 election of local government representatives, mayors and minority local government representatives* (ongoing task according to the audit planning memorandum for the first half of 2020, audit subject serial no. 7)
7. *Regularity audit on the legality of the 2017–2018 financial management of party foundations receiving budget support* (ongoing task according to the audit planning memorandum for the first half of 2020, audit subject serial no. 8)
- 7/1 *Financial regularity audit on the legality of the 2017–2018 financial management of the Magyar Szocialista Párt (Hungarian Socialist Party)* (ongoing task according to the audit planning memorandum for the first half of 2020, audit subject serial no. 8/1)
- 7/2 *Financial regularity audit on the legality of the 2017–2018 financial management of the Jobbik Magyarországért Mozgalom (Movement for a Better Hungary)* (ongoing task according to the audit planning memorandum for the first half of 2020, audit subject serial no. 8/2)
- 7/3. *Financial regularity audit on the legality of the 2017–2018 financial management of the Lehet Más a Politika (Politics Can Be Different)* (ongoing task according to the audit planning memorandum for the first half of 2020, audit subject serial no. 8/3)
- 7/4. *Financial regularity audit on the legality of the 2017–2018 financial management of the Magyar Liberális Párt (Hungarian Liberal Party)* (ongoing task according to the audit planning memorandum for the first half of 2020, audit subject serial no. 8/6)
- 7/5. *Financial regularity audit on the legality of the 2017–2018 financial management of the Párbeszéd Magyarországért Párt (Dialog for Hungary Party)* (ongoing task according to the audit planning memorandum for the first half of 2020, audit subject serial no. 8/7)
8. *Regularity audit on the legality of the 2017–2018 financial management of party foundations receiving budget support* (ongoing task according to the audit planning memorandum for the first half of 2020, audit subject serial no. 9)
- 8/1. *Financial regularity audit on the legality of the 2017–2018 financial management of Táncsics Mihály Alapítvány (Táncsics Mihály Foundation)* (ongoing task according to the audit planning memorandum for the first half of 2020, audit subject serial no. 9/1)
- 8/2. *Financial regularity audit on the legality of the 2017–2018 financial management of Ökopolisz Alapítvány (Ökopolisz Foundation)* (ongoing task according to the audit planning memorandum for the first half of 2020, audit subject serial no. 9/3)
- 8/3. *Financial regularity audit on the legality of the 2017–2018 financial management of Új Köztársaságért Alapítvány (Új Köztársaságért Foundation)* (ongoing task according to the audit planning memorandum for the first half of 2020, audit subject serial no. 9/4)
- 8/4. *Financial regularity audit on the legality of the 2017–2018 financial management of Váradí András Alapítvány (Váradí András Foundation)* (ongoing task according to the audit planning memorandum for the first half of 2020, audit subject serial no. 9/5)
- 8/5. *Financial regularity audit on the legality of the 2017–2018 financial management of Megújuló Magyarországért Alapítvány (Megújuló Magyarországért Foundation)* (ongoing task according to the audit planning memorandum for the first half of 2020,

audit subject serial no. 9/7)

II. MANDATORY AUDIT ASSIGNMENTS BASED ON LEGISLATIVE AUTHORIZATION (UNDEFINED FREQUENCY)

9. *Regularity audit on the operation of the Magyar Nemzeti Bank (Hungarian Central Bank)* (ongoing task according to the audit planning memorandum for the first half of 2020, audit subject serial no. 10)
10. *Financial-accounting audit of the Resolution Fund* (ongoing task according to the audit planning memorandum for the first half of 2020, audit subject serial no. 11)
11. *Audit of parties not receiving regular central budget support* (ongoing task according to the audit planning memorandum for the first half of 2020, audit subject serial no. 12)

III. OTHER (OPTIONAL) AUDIT ASSIGNMENTS TO BE CARRIED OUT BASED ON LEGISLATIVE AUTHORIZATION

12. *Audit of measures pertaining to eco-conscious planning and energy labelling*
13. *Audit of certain audit organizations constituting the second line of defense in the course of auditing local governments*
14. *Audit of the implementation of public educational task performance in the framework of digital education*
15. *Audit of waste management* (ongoing task according to the audit planning memorandum for the first half of 2020, audit subject serial no. 13)
16. *Protection of the population against contagious diseases* (ongoing task according to the audit planning memorandum for the first half of 2020, audit subject serial no. 14)
17. *Follow-up audits* (second phase, ongoing task according to the audit planning memorandum for the first half of 2020, audit subject serial no. 19)
18. *Monitoring audit of follow-up audits* (ongoing task according to the audit planning memorandum for the first half of 2020, audit subject serial no. 31/1)
19. *Follow-up audits* (third phase, ongoing task according to audit subject no. 31/2 of the audit planning memorandum for the first half of 2020)
20. *Audit of public library service providers* (ongoing task according to the audit planning memorandum for the first half of 2020, audit subject serial no. 32)
21. *Audit of local governments* (ongoing task according to the audit planning memorandum for the first half of 2020, audit subject serial no. 23)
22. *Audit of municipally owned institutions*
23. *Audit on the integrity of local governments of villages and towns* (ongoing task according to the audit planning memorandum for the first half of 2020, audit subject serial no. 35)
24. *Audit of local governments based on financial monitoring* (second phase, ongoing task according to the audit planning memorandum for the first half of 2020, audit subject serial no. 30/2)
25. 25/1. *Audit of central budgetary institutions* (ongoing task according to the audit planning memorandum for the first half of 2020, audit subject serial no. 24/1)
25/2. *Audit of central budgetary institutions* (second phase, ongoing task according to the

- audit planning memorandum for the first half of 2020, audit subject serial no. 24/2)
26. 26/1. *Performance audit of management and ownership duties of budgetary institutions* (ongoing task according to the audit planning memorandum for the first half of 2020, audit subject serial no. 25/1)
26/2. Performance audit of management and ownership duties of central budgetary institutions (second phase, ongoing task according to the audit planning memorandum for the first half of 2020, audit subject serial no. 25/2)
 27. *Audit on the budget headings belonging to the central subsystem of the national budget* (ongoing task according to the audit planning memorandum for the first half of 2020, audit subject serial no. 29)
 28. *Audit of foundations/public foundations* (ongoing task according to the audit planning memorandum for the first half of 2020, audit subject serial no. 33)
 29. 29/1. *Audit on non-governmental human service providers – Compliance audit on the utilization of funds granted from the central budget to operators of social institutions providing human services outside public finances* (fourth phase, ongoing task
I. according to the audit planning memorandum for the second half of 2020, audit subject serial no. 21/2.)
29/2. Audit of non-governmental human services providers - Audit on the use of central budget subsidies received by operators of institutions, service providers providing public education and social human services outside of public finances (fifth phase, ongoing task according to the audit planning memorandum for the first half of 2020, audit subject serial no. 21/3)
29/3. Audit of non-governmental human services providers - Audit on the use of central budget subsidies received by operators of institutions, service providers providing public education and social human services outside of public finances (sixth phase, ongoing task according to the audit planning memorandum for the first half of 2020, audit subject serial no. 21/4)
 30. *Audit of nationally owned business associations*
(ongoing task, according to the audit planning memorandum for the first half of 2020, audit subject serial no. 27)
 31. *Audit on the integrity of business associations in majority state or municipality ownership* (ongoing task according to the audit planning memorandum for the first half of 2020, audit subject serial no. 36)
 32. *Audit of the wealth of nationally owned business associations* (ongoing task according to the audit planning memorandum for the first half of 2020, audit subject serial no. 34)
 33. *Audit of minority state ownership* (ongoing task according to the audit planning memorandum for the first half of 2020, audit subject serial no. 28)
 34. *Audit of public bodies* (fourth phase, ongoing task according to the audit planning memorandum for the first half of 2020, audit subject serial no. 20/2)
 35. *Audit of other organisations as per the Accounting Act receiving central budget support* (ongoing task according to the audit planning memorandum for the first half of 2020, audit subject serial no. 37)

I.

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

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 2020

The objective of the audit: to audit the division of the revenues shared by Fővárosi Önkormányzat (Budapest Municipality) and the district municipalities in 2020 as set out in the decree on resource allocation, and the regularity of determining and settling the expenses related to local taxation.

Justification of the audit and expected results: The scope of the revenues shared by the Fővárosi Önkormányzat (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 mandated by the law, the SAO revises the resource allocation decree of the Budapest Municipality for the current year. If the SAO finds that the Fővárosi Önkormányzat (Budapest Municipality) or any of the district local governments have received resources unlawfully or received less resources than they are lawfully entitled to, the Budapest Municipality, in a decree, shall modify the resource allocation with the amount of the discrepancy for the year following the closing of the supervision subject to the resource allocation act.

The output of the audit is expected to be utilized 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 the 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.

Topic No.: 2

Type of the audit: compliance audit

2019. ANNUAL FINAL ACCOUNTS

Compliance audit on the implementation of the 2019 central budget of Hungary

The objective of the audit: to determine whether the content and 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, and whether the change in the deficit in the central budgetary subsystem complied with the requirements of the Act on the central budget of 2019 (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 authorization and competence to implement the budget managed public funds regularly in the financial framework determined in the central budget for 2019.

The audit covers the monitoring of the budgetary processes of 2019, 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 on an annual basis. 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 2019. 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.

Type of the audit: compliance audit

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

The objective of the audit: to assess whether the controls established in the entities that exercise proprietary rights over state property ensured that proprietary rights were exercised regularly, whether the statutory regulations relating to the management, protection and registration of property were adhered to.

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.

As result of the audit, the SAO forms an opinion on whether the task performance 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 regulatory problems at the entities exercising proprietary rights over state property, system-level shortcomings or ones that had been in existence for years. With the audit findings, it contributes to the elimination of the discrepancies, and supports the reinforcement of the system of controls and the responsible, regular property management over state property. The audit provides information to the legislation, the entities affected and society about the situation in the exercising of proprietary rights over state property, and through this, it contributes to transparency and to substantiating the decisions affecting the area.

Topic No.: 4

Type of the audit: regularity audit

**FINANCIAL REGULARITY AUDIT ON THE LEGALITY OF THE 2018-2019
FINANCIAL MANAGEMENT OF POLITICAL PARTIES RECEIVING CENTRAL
BUDGET SUPPORT**

4/1. Financial regularity audit on the legality of the 2018–2019 financial management of Fidesz – Magyar Polgári Szövetség (Fidesz – Hungarian Civic Union)

4/2. Financial regularity audit on the legality of the 2018–2019 financial management of the Kereszténydemokrata Néppárt (Christian Democratic People’s Party)

4/3. Financial regularity audit on the legality of the 2018–2019 financial management of the Momentum Mozgalom (Momentum Movement)

4/4. Financial regularity audit on the legality of the 2018–2019 financial management of the Kétfarkú Kutya Párt

The objective of the audit: to assess whether the financial statements disclosed were in compliance with statutory requirements, 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 issues identified as essential on the basis of risk indicators.

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 authorized to conduct financial regularity audits on the legality of the financial management of political parties. On the basis of its legal obligation, the SAO biennially examines the financial management of the political parties that were subsidized from the central budget on a regular basis. 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.

Presenting the regularity of financial management and the volume of the public funds used up 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 received 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 utilization of the warnings of the previous SAO audit.

Type of the audit: regularity audit

**FINANCIAL REGULARITY AUDIT ON THE LEGALITY OF THE 2018–2019
FINANCIAL MANAGEMENT OF POLITICAL PARTIES RECEIVING CENTRAL
BUDGET SUPPORT**

5/1. Financial regularity audit on the legality of the 2018–2019 financial management of Szövetség a Polgári Magyarorszáért Alapítvány (Foundation for a Civic Hungary)

5/2. Financial regularity audit on the legality of the 2018–2019 financial management of Barankovics István Alapítvány (Barankovics István Foundation)

5/3. Financial regularity audit on the legality of the 2018–2019 financial management of Indítsuk be Magyarországot Alapítvány (Indítsuk be Magyarországot Foundation)

5/4. Financial regularity audit on the legality of the 2018–2019 financial management of Savköpő Menyét Alapítvány (Savköpő Menyét Foundation)

Objective of the audit: is 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 implemented the tasks specified in the action plan drawn up in accordance with the findings requiring action in the previous SAO 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 authorized to conduct financial regularity audits on the legality of foundations, furthermore, based on the provisions of the SAO Act, the SAO is authorized 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 statutory obligation, the SAO biennially examines the financial management of party foundations that were subsidized from the central budget under this law.

By displaying the legality of financial management, the audit contributes to allowing society to gain an objective insight into the operation of party foundations. The result of the audit may promote legislators to take specific action on the basis of the findings, conclusions and recommendations contained in the report, in order to change and increase 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 strategic goals of the SAO through value creation.

Topic No.: 6

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**

The 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, utilization, 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 down the foundations for the revision of the statutory requirements, internal regulations and rules of procedure regulating the activities of the entities participating in the exercise of rights. By demonstrating any deficiencies revealed in connection with the regulations and controls, the audit contributes to the rectification thereof, it 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.

Type of the audit: regularity audit

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

7/1 Financial regularity audit on the legality of the 2017-2018 financial management of Magyar Szocialista Párt (Hungarian Socialist Party)

7/2 Financial regularity audit on the legality of the 2017-2018 financial management of Jobbik Magyarországért Mozgalom (Jobbik Magyarországért Movement)

7/3. Financial regularity audit on the legality of the 2017–2018 financial management of the Lehet Más a Politika (Politics Can Be Different)

7/4. Financial regularity audit on the legality of the 2017-2018 financial management of Magyar Liberális Párt (Hungarian Liberal Party)

7/5. Financial regularity audit on the legality of the 2017-2018 financial management of Párbeszéd Magyarországért Párt (Dialogue for Hungary Party)

The objective of the audit: to assess whether the financial statements disclosed were in compliance with statutory requirements, 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 issues identified as essential on the basis of risk indicators.

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 authorized to conduct financial regularity audits on the legality of the financial management of political parties. On the basis of its legal obligation, the SAO biennially examines the financial management of the political parties that were subsidized from the central budget on a regular basis. 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.

Presenting the regularity of financial management and the volume of the public funds used up 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 received 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 utilization of the warnings of the previous SAO audit.

Topic No.: 8

Type of the audit: regularity audit

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

8/1. Financial regularity audit on the legality of the 2017–2018 financial management of the Tánicsics Mihály Foundation

8/2. Financial regularity audit on the legality of the 2017–2018 financial management of Ökopolisz Alapítvány (Ökopolisz Foundation) 8/3. Financial regularity audit on the legality of the 2017–2018 financial management of Új Köztársaságért Alapítvány (Foundation for a New Republic)

8/4. Financial regularity audit on the legality of the 2017–2018 financial management of the Váradi András Foundation

8/5. Financial regularity audit on the legality of the 2017-2018 financial management of 'Megújuló Magyarországért Alapítvány' (Progressive Hungary Foundation)

Objective of the audit: is 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 implemented the tasks specified in the action plan drawn up in accordance with the findings requiring action in the previous SAO 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 authorized to conduct financial regularity audits on the legality of foundations, furthermore, based on the provisions of the SAO Act, the SAO is authorized 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 statutory obligation, the SAO biennially examines the financial management of party foundations that were subsidized from the central budget under this law.

By displaying the legality of financial management, the audit contributes to allowing society to gain an objective insight into the operation of party foundations. The result of the audit may promote legislators to take specific action on the basis of the findings, conclusions and recommendations contained in the report, in order to change and increase 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 strategic goals of the SAO through value creation.

II.

**MANDATORY AUDIT ASSIGNMENTS BASED ON
LEGISLATIVE AUTHORIZATION (UNDEFINED
FREQUENCY)**

Type of the audit: regularity audit

**REGULARITY AUDIT ON THE OPERATION OF THE MAGYAR NEMZETI BANK
(HUNGARIAN CENTRAL BANK)**

Objective of the audit: To evaluate whether the operation of the governance, decision-making and control system of the Magyar Nemzeti Bank (MNB) was ensured in terms of the MNB's financial management and activities not included in its core tasks; whether the frameworks of MNB's financial management were compliant with legal provisions, and whether the organizational framework of its activity of supervising, auditing and regulating the financial intermediary system has been established.

Justification of the audit and expected results: Pursuant to Section 5 (10) of the SAO Act, the SAO audits the financial management of the Magyar Nemzeti Bank (Hungarian Central Bank) and its activities not included in the core tasks carried out on the basis of the provisions of the Act on the Hungarian Central Bank. Fulfilling its legal obligations, the SAO regularly assesses the financial management of the MNB (Hungarian Central Bank), and the enforcement of the criteria of regular operation.

The MNB (Hungarian Central Bank) is the central bank of Hungary and, as mandated by the Fundamental Law, it is responsible for monetary policy, it supervises the financial intermediary system and, therefore, its activities and financial management are in the center of public interest.

The primary outcome of the audit is supporting the work of the National Assembly, informing the stakeholders and the greater public opinion about the regularity of the operation and financial management of MNB (Hungarian Central Bank). In respect of the audited entity, the audit findings and recommendations may contribute to eliminating any deficiencies that may potentially occur in the regularity of the operation and the establishment of the controls, and to the supervision of internal regulations and practices. It provides credible information to the public about the operation and financial management of the MNB (Hungarian Central Bank), about the performance of its non-core tasks, its responsible financial management of public funds, thus contributing to the dissemination of general professional information. As the "auditor of auditors", the SAO may see its conclusions be utilized at multiple levels as its findings may contribute to making the activity of the auditors more regular and efficient.

Topic No.: 10

Type of the audit: **regularity audit**

**THE FINANCIAL-ACCOUNTING AUDIT OF THE SZANÁLÁSI ALAP
(RESOLUTION FUND)**

The objective of the audit: to assess whether the financial management of the Szanálási Alap (Resolution Fund) complied with the statutory requirements and whether the fund fulfilled its reporting obligation with due level of detailedness and within the applicable deadline.

Justification of the audit and expected results: Pursuant to Act XXXVII of 2014 on the further development of the institutional system strengthening the security of individual players of the financial intermediary system, the SAO carries out the financial-accounting audit of the Szanálási Alap (Resolution Fund).

In order to preserve financial stability and to curb economic decline and to protect depositors, significant amounts of public funds have been spent on consolidating banks. In order to avoid similar situations, financial regulation was renewed in Hungary, too, one direction of which was aimed at establishing the possibility of for the resolution of insolvent financial institutions in an organized environment, financed by the private sector.

The Resolution Fund is a fund financed from the payments of the institutions and is used to cover the financing needs directly related to resolutions. The objective of the Resolution Fund is to satisfy the financing requirements required to manage the problems arising in the financial sector without the need to involve state resources. The Resolution Fund is managed by a Board of Directors. The Fund does not have its independent work organization, operative tasks are performed by the work organization of the National Deposit Insurance Fund.

The resolution competences are exercised by the Magyar Nemzeti Bank (Hungarian Central Bank) acting as a resolution authority, the detailed rules of exercising its competences are set forth in Act XXXVII of 2014.

Based on the Accounting Act and a separate Government Decree, the Fund prepares an annual report for the financial year applying doubly-entry bookkeeping, its accounting records and its annual report are audited by an auditor.

The audit provides information to the National Assembly and the affected entities about the financial situation of the Resolution Fund, and about the regularity of its financial management. The SAO findings may facilitate the regular financial management of the Fund, the maintaining of the financial equilibrium of the organization, thus contributing to preserving the stability of the financial intermediary system and protecting public funds.

Type of the audit: **regularity audit**

**AUDIT OF THE POLITICAL PARTIES NOT RECEIVING REGULAR CENTRAL
BUDGET SUPPORT**

The objective of the audit: to reveal whether the political parties not receiving regular central budget support have complied with their obligation to prepare and disclose financial statements as set forth in Section 9 (1) of the Political Parties Act.

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 authorized to conduct financial regularity audits on the legality of the financial management of political parties. The SAO audited the legality of the financial management of the political parties not receiving central budget support in the preceding years, as well. The majority of the political parties in Hungary are not entitled to regular central budget support as they failed to acquire at least 1% of the votes of the constituents during the national elections. The Political Parties Act requires biennial audits in the case of political parties receiving regular central budget support, however, there is no statutory requirement as to the frequency of the audits of political parties not receiving central budget support. Because of this, the significance of the audit is not justified by the magnitude of the financial management of the audited political parties, but rather by a safeguard deriving from the rule of law requiring that audits be carried out on the legality of the financial management of every political party.

III.

**OTHER (OPTIONAL) AUDIT ASSIGNMENTS TO BE
CARRIED OUT BASED ON LEGISLATIVE
AUTHORIZATION**

Type of the audit: compliance and performance audit

AUDIT OF MEASURES PERTAINING TO ECO-CONSCIOUS PLANNING AND ENERGY LABELLING

The objective of the audit: to evaluate the regulatory and institutional environment related to eco-conscious planning and energy labelling and to audit the market supervision and consumer protection activity related to the same, as well as to examine the definition of the goals pertaining to the reduction of final energy consumption, the establishment of the related monitoring system and the monitoring of the achievement of the goals set.

The aim of the performance audit is to examine whether the regulatory and institutional environment related to eco-conscious planning and energy labelling, the related market supervision and consumer protection activity contributed to the achievement of the goals pertaining to the reduction of energy consumption efficiently, and to examine the satisfaction and energy awareness of consumers provided by the energy labels with the method of evaluation.

Justification of the audit and expected results: The aim of eco-conscious planning and energy labelling is to promote energy efficiency, which is handled by Hungarian energy policy as a priority. On account of energy efficiency, dependency on energy import is mitigated, the energy bills of institutions and the population will decrease, the number of investments will rise, thus resulting in an improvement in employment rate, in the mobilization of the domestic capital and the acceleration of the flowing in of foreign operating capital and subsidies, and our international environmental commitments related to the emission of pollutants are also fulfilled.

Residential energy consumption gives a significant part – almost one third

– of the final energy consumption of Hungary, and Hungary is amongst the ten member states with the highest values in terms of climate-corrected residential energy consumption in the EU, therefore, in order to achieve Hungary's energy efficiency and energy saving goals, engaging the population and making them interested in reducing their individual consumption is of utmost importance.

With the audit findings, the SAO promotes the work of field-specific political decision-makers in the field of eco-conscious planning and energy labelling. As the “auditor of auditors”, the SAO may see its conclusions be utilized at multiple levels as its findings may contribute to making the activity of the audit organisations, that is, the supervisory and consumer protection authorities more regular and efficient. Thus the SAO can contribute to the dissemination of information amongst the population in terms of the energy consumption of products and also to raising the energy awareness of the population.

Topic No.: 13

Type of the audit: compliance and performance audit

AUDIT OF CERTAIN AUDIT ORGANISATIONS SERVING AS THE SECOND LINE OF DEFENCE IN THE COURSE OF AUDITING LOCAL GOVERNMENTS

The objective of the audit: to evaluate whether the task performance of the capital and country government offices related to the lawfulness supervision of local governments complied with statutory provisions, whether the goals related to the performance of tasks have been determined and whether their fulfilment has been evaluated, as well as whether the supervisory activity has been effective. To evaluate whether the auditing function of the Hungarian State Treasury pertaining to the reporting of the local government subsystem and the subsidies related to the overall operation and sectoral tasks of the local governments was regulated and regular.

Justification of the audit and expected results: The Act on Public Finances names three areas in the audit system of public finances in order to ensure the regular, economical, effective and efficient management of the funds of public finances and the national assets as well as the regular compliance with the reporting and data provision obligations: the internal control system of public finances, the government-level audit and external audit. These three areas constitute the three lines of defense of public finances. The audit of the reports of the local government subsystem by the treasury, and the supervision of the lawfulness of the local governments by government offices are the second line of defense of public finances.

The lawful operation of local governments, as well as the reliability of the reporting data related to operation are essential criteria for enforcing transparent and responsible financial management of public funds. By auditing the audit organisations constituting the second line of defense (government offices, Hungarian State Treasury), the SAO can contribute to the regular operation and financial management of local governments, and thus to the more regular use of public funds and financial management of national assets.

As a result of auditing the institutions constituting the second line of defense, the SAO is able to maximize its contribution to the establishment of a regular, responsible and disciplined financial management of public funds, as the results and findings of the SAO's audits (by increasing the regularity, efficiency and transparency of the activity of the supervisors) may be indirectly utilized in the operation of the auditees supervised by the audit organisations.

In the course of the audits carried out, the SAO can also identify "good practices" in addition to the deficiencies revealed, and can introduce such good practices to a wider scope of stakeholders in its advisory function, thus also contributing to the regulated, transparent, balanced and sustainable operation of the central budget system.

Type of the audit: compliance and performance audit

**AUDIT OF THE IMPLEMENTATION OF PUBLIC EDUCATIONAL TASK
PERFORMANCE IN THE FRAMEWORK OF DIGITAL EDUCATION**

The objective of the audit: to evaluate whether the implementation of the public educational task performance has been ensured in the framework of the digital education announced in the public education system due to the Coronavirus epidemic and whether the task performance of organisations performing sectoral management has been regular.

Justification of the audit and expected results: According to the provisions of Act CXC of 2011 on National Public Education, providing the right to free and mandatory basic-level as well as free and accessible secondary education until secondary graduation, and until the first professional exam ensuring the second vocational qualification as specified in the Act on Vocational Training constitutes the public duty of the Hungarian State.

The funds required for the operation of the public education system are provided by the state budget and the operator. The SAO has general competence to conduct audits of the responsible management of public funds and of state and municipal assets, and thus to audit the implementation of the public education function using public funds. The audit focuses on the transition to digital education and the implementation and measurement of the online education during the state of emergency.

With its conclusions, the SAO facilitates the responsible and effective financial management of public funds and, with the audits, it contributes to establishing and maintaining a system that creates values.

The development of the public education system – with regard to the accelerating expansion of digitization observed today – is of key importance also from the perspective of the competitiveness of the country. Summarizing the experiences of the application of the digital educational methods developed during the state of emergency may contribute to rethinking the development directions of the system of public education. With its audit findings, the SAO can facilitate the sectoral management task performance of the public education system, may call attention to the opportunities of expanding digital education as well as to the factors hindering the same.

Topic No.: 15

Type of the audit: compliance and performance audit

THE AUDIT OF WASTE MANAGEMENT

The objective of the audit: to assess whether the establishment and operation of the regulatory and organizational system of waste management ensures the appropriate and effective performance of the public duty.

Justification of the audit and expected results: According to the Fundamental Law, Hungary acknowledges and endorses the right of everyone to a healthy environment. Agenda 2030, a new, integrated framework for sustainable development, adopted in September 2015 by 193 UN Member States, defines, amongst others, goals for the protection of the ecosystems of the Earth. Waste management plays a key role in protecting the quality of our environment and our natural resources, it directly affects every level of society. Increasing awareness of the dangers posed by climate change results in growing public interest in environmental issues.

The audit describes the status of waste management systems, it may shed light on whether waste management fulfils its legally prescribed role, whether its regularity and organization ensure that public duties are performed effectively and that goals are met, thus contributing to reducing and properly treating waste, and to the transformation thereof into a resource.

The audit may provide information to society, legislators and persons participating in the performance of public duties about the waste management situation in Hungary, and it may raise awareness of the deficiencies and weaknesses the managing and changing of which may lead to a more effective realization of the goals.

Type of the audit: compliance and performance audit

PROTECTION OF THE POPULATION AGAINST CONTAGIOUS DISEASES

The objective of the audit: to assess whether the population is adequately protected against contagious diseases, whether the systems in place ensure that rarely occurring contagious diseases or ones that have not occurred up to now can be prevented, with particular attention to the current, massive migration and the impacts of climate change.

Article XX (1) of the Fundamental Law stipulates that everyone has the right to physical and mental health. 193 UN Member States adopted Agenda 2030, a new, integrated framework for sustainable development, in September 2015. As part of this, they adopted 17 goals, of which goal no. 3 is: Good health. (Ensure healthy lives and promote well-being for all at all ages.)

Justification of the audit and expected results: Protection against contagious diseases is in the interest of the individual and society, as well. One of the most important instruments in preventing epidemics is vaccination. The Council of the European Union highlighted that vaccination programs are characterized by growing uncertainty in Europe because of the low vaccination rates, the lack of trust in vaccines, the growing costs of new vaccines and the shortages experienced in the areas of vaccine production and supply. In certain European Union countries, the vaccination coverage is not sufficient and a number of countries have seen outbreaks of epidemic diseases (measles). In addition to this, migration, an increased desire to travel, anti-vaccination movements, the impacts of climate change increase the risk of epidemics.

In combating epidemics, Hungary is currently in the top league of Europe, nevertheless, epidemiological risks affect Hungary as well. By taking into account the risks, the audit may identify the weak spots in the domestic epidemiological system and any shortcomings in the preparations against epidemics. The international audit offers an opportunity to learn about the practices in other countries, and to utilize good practices in order to improve the domestic system. The topic is of public interest, because health preservation and the avoidance of epidemics are in the interest of both the individual and the whole of society.

The State Audit Office of Hungary plans to conduct the audit as part of an international audit.

Topic No.: 17

Type of the audit: compliance audit

FOLLOW-UP AUDITS

(second phase)

The objective of the audit: to assess whether the audited entity has implemented the tasks that were determined in the action plan prepared on the basis of 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 organization 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 organization 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 persons.

By implementing the measures, the risks in relation to the compliant operation of the given area may be reduced, however, in the long run these risks will not cease through the implementation of the measures specified in the action plan by itself, only if they are incorporated into the operation of the audited organization, they are continuously maintained, taking into account and managing the changes. In addition, until the implementation of the measures, there may be new risks to proper operation, the management of which is also of paramount 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 organization 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 jeopardizing 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 the case of persistent irregularities resulting from the failure to implement the above measures.

Type of the audit: compliance audit

AUDIT OF FOLLOW-UP AUDITS BASED ON MONITORING

The purpose of audit: is to assess whether the manager or head of the organization obligated to establish and operate an internal control system has reduced the risks of the organization'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 organization is required to draw up an action plan, based on the findings and proposals of the SAO reports requiring action, and send it to the State Audit Office.

Pursuant to Government Decree No. 370/2011. (XII. on the internal control system and internal audit of central budgetary institutions (hereinafter: Bkr Decree), the head of the body or organizational unit subject to the audit and the recommendation is responsible for the preparation and implementation of the action plan as well as for reporting about 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.

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.: 19

Type of the audit: compliance audit

FOLLOW-UP AUDITS

(third phase)

The objective of the audit: the risk-based evaluation of whether the audited entities utilized the recommendations formulated in the SAO report for eliminating the deficiencies and mitigating risks by implementing the measures included in the action plan composed by the head of the organization and all in all whether public funds have improved and whether the SAO's audit findings have been utilized.

Justification of the audit and expected results: Pursuant to Section 1 of Article 33 of the SAO Act, the head of the audited organization 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 organization 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 persons.

By implementing the measures, the risks in relation to the compliant operation of the given area may be reduced, however, in the long run these risks will not cease through the implementation of the measures specified in the action plan by itself, only if they are incorporated into the operation of the audited organization, they are continuously maintained, taking into account and managing the changes. In addition, until the implementation of the measures, there may be new risks to proper operation, the management of which is also of paramount 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 organization 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 jeopardizing public funds and public property may lead to further measures.

The SAO's risk assessment-based follow-up audits include the organisations required to take actions related to the findings included in the reports prepared about the audits conducted in the case of business associations, foundations classified into the governmental sector or not belonging to the scope of the Bkr Decree as well as religious organisations.

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 the 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 utilization 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**

PERFORMANCE AUDIT ON PUBLIC LIBRARY SUPPLIERS

Objective of the audit: is to determine whether public libraries have provided the essential conditions for the regular management of finances and assets, and also to examine 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 topic 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 areas of risk 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.

Topic No.: 21

Type of the audit: compliance and performance audit

AUDIT OF LOCAL GOVERNMENTS

The 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 of value, protection and compliant management 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 the authorization 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 and to promote the prevalence of the basic postulates 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 organization. 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 stakeholders in its advisory 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 property management, the protection of state property, the preservation of its value and conditions at the local government,
- investments: evaluates the regularity and propriety of investment decisions,
- significant investments: evaluates the preparation of investments 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 organization and certain parts thereof (effectiveness, expediency, efficiency) (including, amongst others: the performance of the economic area, leadership performance),

- minority local government audit: evaluation of the establishment of the framework of the operation and financial management of the minority local governments.

The aim of the SAO is to continue to promote the improvement of public finances by applying a new audit approach, to give a real-time overview of the enforcement of the integrity approach in the entirety of the local government subsystem (focusing on the material documents of the present stage), and to highlight the main deficiencies of the establishment of integrity controls.

Type of the audit: compliance audit

AUDIT OF MUNICIPALLY OWNED INSTITUTIONS

The objective of the audit: to determine whether the institutions of local governments established organizational and regulatory frameworks and processes as well as regulation for defense against corruption with which they can ensure regular operation and the enforcement of the requirements of effectiveness, as well as the enforcement of the integrity approach.

Justification of the audit and expected results: The Fundamental Law specifies that every organization 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. Auditing municipally owned institutions is justified for the purpose of bettering the transparency of public finances, the protection of public funds, and for protection against corruption.

The functions performed by the institutions of local governments, the nursery and kindergarten care, the care for the sick and the elderly, public cultural institutions and the operation of libraries directly influence all layers of the society, and the quality of the operation of the institutions performing these functions influence the general well-being of the people. A basic condition of the regular, economic, effective and efficient operation and financial management of institutions is the establishment of the integrity controls ensuring the prevention of corruption and the operation of an internal control system. The SAO, based on its legislative authorization, audits the municipally owned institutions to promote the regular financial management and operation of the audited entities with its findings.

The aim of the SAO is to promote the improvement and development of public finances, as well as the maintenance of achievements by applying audits based on new methodologies (risk assessment-based and monitoring type), by covering the entirety of municipally owned institutions. Monitoring-based audits on a typical, significant area, focusing on the material documents of the present stage, strengthen the advisory role of the SAO with real-time evaluation and recommendations for the future. Furthermore, by utilizing the opportunities offered by digitization, the identification of risks and the assessment of changes occurring on areas of risk compared to that forecasted becomes possible in terms of the institutions of local governments through audits based on new methodology, by determining the focal points of detailed audits.

Topic No.: 23

Type of the audit: compliance audit

AUDIT ON THE INTEGRITY OF LOCAL GOVERNMENTS OF VILLAGES AND TOWNS

The 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 structured 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 high-risk 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 and the wide system of relationships established with clients and the private sector).

Type of the audit: compliance audit

AUDIT OF LOCAL GOVERNMENTS BASED ON FINANCIAL MONITORING

(second phase)

The purpose 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 of indicators.

For carrying out the audit, the designated local governments are grouped according to the feasibility of the audit as well as 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 sheet 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 in the evaluation 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 local governments and by providing recommendations for their modification, the SAO, through its audits, contributes to the regular and sustainable operation of a “well-managed state” and of the local governments.

Topic No.: 25/1

Type of the audit: compliance and performance audit

AUDIT OF CENTRAL BUDGETARY INSTITUTIONS

The objective of the audit: to determine whether the organization 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 local government ensured the preservation of value, protection and compliant management of national assets.

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 serves 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 and 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 organization. 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 stakeholders in its advisory function, thus also contributing to the regulated, transparent, balanced and sustainable operation of the central budget system.

The audit is carried out based on the risk assessment of the organization, by taking into consideration the specific and substantial characteristics, via 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 it is against corruption,
- financial management: evaluates financial balance and the financial processes,
- property management: evaluates property management, the protection of state property and 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 investments performed with the use of funds from the central budget as well as the preparedness of the organization 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)

The objective of the audit: to determine whether the organization 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 local government ensured the preservation of value, protection and compliant management of national assets. 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 serves 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 organization. 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 stakeholders in its advisory function, thus also contributing to the regulated, transparent, balanced and sustainable operation of the central budget system.

The audit is carried out based on the risk assessment of the organization, by taking into consideration the specific and substantial characteristics, via 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 it is against corruption,
- financial management: evaluates financial balance and the financial processes,
- property management: evaluates property management, the protection of state property and 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 investments performed with the use of funds from the central budget as well as the preparedness of the organization to

implement the investment,

- performance audit: evaluates the effectiveness of the economic area of the organization and measures leadership performance,
- middle management bodies: in the case of budgetary institutions also performing middle management functions, it evaluates the exercising of management powers,
- the risk assessment-based audit of hospitals, vocational schools and school district centers: the program provides opportunity for both individual and group evaluations, and the scope of the audit can include 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 legal requirements and the public methodology published by the State Audit Office of Hungary.

At the institutions concerned in utilizing the resources provided for managing the state of emergency declared due to the Coronavirus epidemic, it is justified to audit whether the framework for the regular utilization of the available resources has been established, and whether the institutional system was prepared for effecting the payments.

By putting to use the opportunities offered by digitization, and by applying a new, monitoring-type audit approach, the SAO wishes to provide an overview as to the regularity and main deficiencies on a given typical, material area of the central subsystem. Monitoring-type audits, focusing on the material documents of the present stage, strengthen the advisory role of the SAO with real-time evaluation and recommendations for the future. With their findings, they support the establishment of the regular operation of audited entities, and at the same time they call the attention of management bodies to the deficiencies in the regular and transparent accounting of the public property handled by the managed entities or in the regulations and processes ensuring the effective utilization of the available resources, as well as the fundamental deficiencies of the operation and financial management of central budgetary institutions.

Topic No.: 26/1

Type of the audit: compliance audit

**PERFORMANCE AUDIT OF MANAGEMENT AND OWNERSHIP DUTIES OF
BUDGETARY INSTITUTIONS**

The objective of the audit: to assess whether the tasks of the managers or proprietors of central budgetary institutions were performed properly. In the framework of the audit, we evaluate the structure of integrity controls for the management of corruption risks link to 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 the 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 organizational units performing management and proprietary functions established and operated the system of the practical implementation of management 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 management or proprietary duties of key social importance. Through auditing the organisations performing management or proprietary functions, the State Audit Office of Hungary can contribute to the 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 stakeholders in its advisory function, thus also contributing to the regulated, transparent and balanced operation of the central budget system.

Type of the audit: compliance audit

**PERFORMANCE AUDIT OF MANAGEMENT AND OWNERSHIP DUTIES OF
BUDGETARY INSTITUTIONS**

(second phase)

The objective of the audit: to assess whether the tasks of the managers or proprietors of central budgetary institutions were performed properly. In the framework of the audit, we evaluate the structure of integrity controls for the management of corruption risks link to 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 the 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 organizational units performing management and proprietary functions established and operated the system of the practical implementation of management 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 management or proprietary duties of key social importance. Through auditing the organisations performing management or proprietary functions, the State Audit Office of Hungary can contribute to the 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 stakeholders in its advisory function, thus also contributing to the regulated, transparent and balanced operation of the central budget system.

Topic No.: 27

Type of the audit: compliance audit

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

Objective of the audit: is to assess whether the establishment of budgetary chapters, chapter-managed appropriations and the operational and organizational frameworks of the institutions governing the chapters were 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 the financial management and operation of budgetary institutions amongst others for the purpose of managing the risks identified with the continuous 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 and 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 based on novel approaches, it contributes to establishing and maintaining a system that creates values.

The audit is carried out on the basis of the 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.

Type of the audit: compliance audit

AUDIT OF FOUNDATIONS/PUBLIC FOUNDATIONS

Objective of the audit: to determine 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.

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 the 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 national ownership. By evaluating the transparency of the utilized funds and the accountability of the financial management of public funds, the SAO promotes an objective view for society in respect of the operation 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 audits based on a new methodology (risk assessment-based and monitoring-type) cover material areas of the management of public funds by foundations, and, by defining focal points, they enable the identification of risks and the consideration of changes in areas of risk in comparison with the reports of previous audits.

Topic No.: 29/1

Type of the audit: compliance audit

AUDIT OF NON-GOVERNMENTAL HUMAN SERVICE PROVIDERS

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

(fourth phase)

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

Justification of the audit and expected results: The annual budget acts provided significant amounts in the way of financial support 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 into the funding system, effective as of January 1, 2012.

The subsidy based on average salary introduced in 2013 as a form of function financing is also applicable to operators 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 in order to ensure that even the organizations 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 and 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 subsidies received by operators of public educational and social institutions and service providers, outside of public finances, providing human services

(fifth phase)

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

Justification of the audit and expected results: The annual budget acts provided significant amounts in the way of financial support for operators of non-governmental institutions performing social and public educational functions for the purpose of 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 into 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 and 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, in the framework of the audit, we assess the compliance of the use of supports related to activities of social and public educational functions outside of public finances at operators and their institutions chosen based on individual risk analysis.

Topic No.: 29/3

Type of the audit: compliance audit

AUDIT OF NON-GOVERNMENTAL HUMAN SERVICE PROVIDERS

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

(sixth phase)

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

Justification of the audit and expected results: The annual budget acts provided significant amounts in the way of financial support for operators of non-governmental institutions performing social and public educational functions for the purpose of 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 929 billion in the years 2017-2019. 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 into 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 and 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, in the framework of the audit, we assess the compliance of the use of supports related to activities of social and public educational functions outside of public finances at operators and their institutions chosen based on individual risk analysis.

The State Audit Office of Hungary also assesses non-governmental human service providers in the framework of an audit with a new methodology, based on risk assessment and monitoring. Risk-based audits provide an objective overview of the areas of risk at organisations on the basis of evaluating the relevant documents. Monitoring-based audits on a typical, significant area, focusing on the material documents of the present stage, strengthen the advisory role of the SAO with real-time evaluation and recommendations for the future. The audits provide 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 legal requirements and the public methodology published by the State Audit Office of Hungary.

Type of the audit: compliance and performance audit

AUDIT OF NATIONALLY OWNED BUSINESS ASSOCIATIONS

The 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 person exercising ownership rights exercised its rights and fulfilled its obligations properly.

Justification of the audit and expected results: Auditing nationally owned economic organisations is of key importance in view of the preservation and protection of national property. Their financial management is typically of public interest and is in the attention 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. The economic organisations owned by the state or local governments appearing in the accounts of the government sector for which it is a basic requirement to conduct regular financial management and to provide reliable data are of priority importance also with regard to the Excessive Deficit Procedure in effect in the European Union since 1994.

Our audits can 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 risks of the organisations influencing the budget deficit can be identified 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 can contribute to the familiarisation and distribution of the solutions to be followed.

The audit is carried out based on the risk assessment of the organization, by taking into consideration the specific and substantial characteristics, via 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 investments performed with the use of funds from the central budget as well as the preparedness of the organization 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.
- Risk jeopardizing the existence of business associations: evaluates whether the financial management of the business association was monitored in order to prevent insolvency and loss of assets.

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 organizational 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, whether it has established the integrity controls mitigating integrity risks as part of the foregoing, and whether these means of control included the processes and areas of risk.

Justification of the audit and expected results: The State Audit Office 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. The 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 by the law, autonomously and responsibly, according to the requirements of lawfulness and effectiveness. Every organisation managing public funds shall be obliged to account for its management of such funds publicly. Public funds and national assets shall be managed according to the principles of transparency and the purity of public life.

Monitoring-based audit on the material areas of the integrity-based operation of business associations focusing on the material documents of the present stage, strengthen the advisory role of the SAO with real-time evaluation and recommendations for the future. With the help of the monitoring-based audit indicating risks, the SAO can evaluate the integrity control/integrity-risk management system of business associations in municipal/state ownership in the case of a large number of auditees simultaneously.

The audit of the State Audit Office of Hungary contributes to the improvement of 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 the reduction of their vulnerability related to integrity.

Type of the audit: compliance audit

AUDIT OF ASSETS OF NATIONALLY OWNED BUSINESS ASSOCIATIONS

Objective of the audit: to assess whether the exercise of proprietary rights 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 to assess the regularity of issues identified as material on the basis of risk indicators.

Justification of the audit and expected results: Auditing nationally owned business associations is of key importance in view of the preservation and protection of national assets. Their financial management is of public interest and is in the center of attention of the media regularly, 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.

The audit carried out based on material documents includes the approval of the accounting report by the person exercising ownership rights, as well as the evaluation of the information available on the assets of the company based on the 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 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 audit may provide an assessment on the quality of management and whether the business associations have provided the conditions for the performance audit.

Topic No.: 33

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, the audit evaluates whether the activities of the person exercising the owner's rights aimed at the maintenance and increase of property value were adequate.

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

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 audit

AUDIT OF PUBLIC BODIES

(fourth phase)

The 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 increased 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 the support provided from public funds, and the State Audit Office of Hungary intends to contribute to this with its audits assessing the support 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 it can provide information to the society about the financial management of public bodies and the use of public funds. With the audit, the State Audit Office of Hungary strengthens its added value-creating activity and counselling role.

Topic No.: 35

Type of the audit: regularity audit

**AUDIT OF OTHER BODIES AS PER THE ACCOUNTING ACT RECEIVING
CENTRAL BUDGET SUPPORT**

Objective of the audit: to evaluate whether the other organization has established the frameworks of its financial management in a regular manner, and whether the entity has fulfilled its annual reporting obligation and the registration obligation related to the funds received from public finances in a regular manner.

Justification of the audit and expected results: The Fundamental Law sets forth that public funds and national assets shall be managed according to the principles of transparency and the purity of public life. Organizations managing public funds shall be obliged to account for their management of public funds publicly. The State Audit Office of Hungary audits the use of funds received from state budget based on a legislative authorization. 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 organizations. The State Audit Office of Hungary, by fulfilling its obligation and strategic objective, audits the financial management of other organizations as per the Accounting Act.

The audit includes the other organizations as per Paragraph 3 of Section 4 of the Accounting Act whose financial management as well as obligation of reporting and bookkeeping is also laid out in other laws. Foundations are exceptions to this rule, as the State Audit Office of Hungary audits them as part of a separate audit.

The information gathered on the financial management of other organizations and the regularity of their use of public funds with the help of the audit contributes to allowing the society to gain an objective insight into the financial management of these organizations. The audit findings support the work of legislature in the course of regulating the operation and financial management of organisations. The recommendations formulated based on the deficiencies and discrepancies revealed as well as the good practices may contribute to the more regular management framework of organizations and to the transparent and accountable use of public funds.



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