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The Audit Planning Memorandum of the State Audit Office of
Hungary for the First Half of 2020



STATE AUDIT
OFFICE OF
HUNGARY

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of Hungary for the First Half of 2020.

Approved by:
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President

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Introduction

The State Audit Office of Hungary (SAO) is the supreme financial and economic audit organisation of the National Assembly and a key institution of the democratic state organisation.

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 biannual 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 helps the National Assembly, its committees and the work of 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 four 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,
- IV. International audit topics.

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, and, in the course of its ongoing audits and when planning the audits, it shall utilize the facts it obtained from the information notices provided to it and the information, indications and other documents provided to it.

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 first half of 2020, the SAO shall 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 organisations 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 economy, effectiveness and efficiency.

In order to increase the audit coverage of certain areas and to reduce the workload on the audited organisations, audits of new technology will be launched in the first half of 2020. In order to cover a substantial population, in addition to local governments, the audits have been extended to cover institutions, nationally owned business associations and foundations.

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 first half of 2020, the *audit of the final accounts prepared on the implementation of Hungary's 2019 central budget will be launched* 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. In fulfilling its legal obligations, the SAO expresses its opinion on the budget appropriation bill for the year 2021, supporting the National Assembly with its work in creating and passing the budget act in compliance with the statutory requirements.

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*, which includes the launching of audits at additional organizations. In the first half of 2020, the SAO shall commence *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.

Therefore, when auditing the management of *assets falling within public finances*, the financial management of such assets and the activities of organizations aimed at maintaining and increasing the value of the assets, it is of pivotal importance to assess the activities related to the exercising of proprietary rights over state property carried out on an annual basis, with legal authorization. The SAO will *commence* its audits for the year 2019.

In the first half of 2020, the SAO shall *continue* the audit of the division of the *revenues shared* by Fővárosi Önkormányzat (Budapest Municipality) and the district municipalities as well as the regularity audit of determining and accounting the expenses related to local taxation, required by law to be carried out on an annual basis.

The performance of further audit assignments of the SAO required by law shall continue in the first half of 2020 with organization-specific audits carried out in the same fields and in certain topics. These audits will also affect major subsections of public finances and entities that are outside of public finances but which are closely related to it. In order to conduct risk analysis-based audits, the SAO, for its organization-specific audits, shall put major emphasis on the preparation of targeted modular audit plans, adjusted to the specific risks attributed to the audited entities.

The audit of other entities subject to the Accounting Act commencing in the first half of 2020 shall investigate whether the auditees created adequate conditions for the preservation of national assets and for the regular use of public funds, whether their financial management and asset preservation activities complied with the statutory requirements, whether they fulfilled their record-keeping and accounting obligations regularly, whether they complied with the provisions of industry-specific legislation.

The non-core activities and the financial management of the Magyar Nemzeti Bank (Hungarian Central Bank), acting as the second line of defence in the monetary sector, as well as the

fulfillment of the criteria of lawful operation and the regularity of the accounts related to the central budget will also be audited.

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 on the accounting rules of public finances.

In order to conduct efficient and practical audits, the audit of local governments, central budgetary institutions and state-owned business associations will continue in the first 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. The SAO may apply integrity and internal control, financial management, property management, significant investment, leadership and organizational performance audit modules for each of the listed entities. Local government modules are supplemented with an institutional regularity module aiming at the evaluation of the regularity of investment decisions and debt settlement procedures, and also laying down the foundations of performance audits. In the case of central budgetary institutions, the audit of middle management bodies may also take place; in the course thereof, the administration, financial management and property management duties and the use of the balance are also audited by the SAO.

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 also involve local governments in the evaluation which were not audited in the previous period. With its audits based on the evaluation of monitoring reports and the identification of risks having an impact on the financial equilibrium of local governments, the SAO contributes to ensuring the sustainability of the financial management and task performance of local governments.

The SAO will continue its *follow-up audits* in the first half of 2020, aiming to audit the implementation of action plans prepared by the audited entity for the purpose utilizing the findings of audit reports. 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 protection of public funds and national assets have been realized.

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

In the first half of 2020, the audit of the national (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

it will be assessed whether the task performance of the person exercising minority owner's rights was satisfactory. In case of business associations, financial management leading to losses, surcharge payment obligations also pose a financial risk for the state.

In order to facilitate the lawful, responsible and efficient management of public property, in the first half of 2020 the SAO will continue the audit of financial management and operation of institutions that have monitoring and supervisory powers themselves. Particular attention will be paid by the SAO to the audits aimed at the strengthening of *the second line of defense*; in this scope, the performance of tasks (including the performance of controlling, auditing and monitoring duties) of the National Tax and Customs Administration and of the controlling bodies will be audited.

Further audits to be carried out in the field are also necessitated by the specific scope of assets managed by *public libraries* as well as by the risk assessment and risk analysis that had been prepared in this field.

In the first half of 2020, as part of an international audit, it will continue auditing the measures implemented to *improve the circumstances of people living below the poverty threshold*, the attainment of goals related to the improvement of the circumstances of people living under the poverty threshold, ensuring that strategic objectives are met and planned measures are implemented.

Following the preparatory activities carried out earlier, the first half of 2020 will see the continuation of the audit of the *National Fund of Family and Social Policy Affairs*. The audit is to evaluate whether the control mechanisms in the fields of family subsidies and finances have been established and operated adequately, whether the government offices have taken measures to eliminate the deficiencies identified (in connection with family subsidies) by the previous SAO audits and whether the affected parties are satisfied with the services rendered.

The SAO, by auditing waste management, 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, effectively and efficiently.

As determined in the Fundamental Law of Hungary, everyone has the right to physical and mental health. One of the most important devices in preventing epidemics is vaccination, with particular regard to massive ongoing migration and the impacts of climate change. In the first 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 the first 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 stability, productivity and sustainability of the Hungarian economy is crucial for the country, and the external vulnerability and the rate of public debt continue to decline as result of the strategic decisions in this respect. It is, therefore, of prime importance to examine whether *public debt management* by the responsible bodies in the 2014-2018 period successfully contributed to reducing the gross external debt of Hungary.

In connection with the other audit assignments delegated to the SAO by law, as result of its methodological improvements, in the first half of 2020 the SAO will continue the new,

risk assessment-based audits in the subject areas of *follow-up audits, entities providing public library services, foundations/public foundations, nationally-owned business associations, hospitals, vocational schools, non-governmental human services providers and integrity audits*. These audits covering major areas on the basis of earlier audit experiences may improve the expediency and efficiency of the use of public funds and the utilization of public property. Increasing the number of such audits and the number of audited entities may contribute to greater coverage in the audited areas. The methodological and digital implementations, besides decreasing the workload on the audited entities, allow the time required by audits to be reduced and the efficiency of the audits to be increased.

The SAO, reinforcing its advisory role mandated by law and in order to further utilize the findings of thematic 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, by the completion of which the organizations can get information concerning the fields in respect of which their financial management, controlling and regulatory activities may be improved. During its audits, the SAO continues to pay particular attention to the mapping of integrity and the operation of the internal control system, whose appropriate functioning is a prerequisite for the regular, responsible, economical, efficient and sound financial management of public funds and national assets.

LIST OF SUBJECTS

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

1. *Final accounts of the 2019 budget of Hungary – Compliance audit on the implementation of the 2019 central budget of Hungary*
2. *Opinion on the 2021 central budget – Opinion on the 2021 budget appropriation bill of Hungary*
3. *Audit on the activities related to the exercise of proprietary rights over state property*
4. *Financial regularity audit on the legality of the 2018–2019 financial management of political parties receiving budget subsidies*
 - 4/1. *Hungarian Civic Alliance Financial regularity audit on the legality of the 2018–2019 financial management of Fidesz – Magyar Polgári Szövetség (FIDESZ – Hungarian Civic Alliance)*
 - 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 (Two-Tailed Dog Party)*
5. *Financial regularity audit on the legality of the 2018–2019 financial management of party foundations receiving 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 lawfulness of the 2018–2019 financial management of 'Indítsuk be Magyarországot Alapítvány' (Let’s Get Hungary Started Foundation)*
 - 5/4. *Financial regularity audit on the legality of the 2018–2019 financial management of Savköpő Menyét Alapítvány (Savköpő Menyét Foundation)*
6. *Review of the local government decree on the division of the revenues due to and shared by the Fővárosi Önkormányzat (Budapest Municipality) and the Budapest district local governments in 2019 (an ongoing task*
II. *according to the audit planning memorandum for the second half of 2019, audit subject serial no. 31)*
7. *Audit on the use of funds spent on the 2019 election of local government representatives, mayors and minority local government representatives (an ongoing task according to the audit planning memorandum for the second half of 2019, audit subject serial no. 32)*
8. *Financial regularity audit on the legality of the 2018–2019 financial management of political parties receiving budget subsidies (an ongoing task according to the audit planning memorandum for the second half of 2019, audit subject serial no. 34)*
 - 8/1. *Financial regularity audit on the legality of the 2017-2018 financial management of Magyar Szocialista Párt (Hungarian Socialist Party) (an ongoing task according to the audit planning memorandum for the second half of 2019, audit subject serial no.*

34/1.)

- 8/2. *Financial regularity audit on the legality of the 2017-2018 financial management of Jobbik Magyarországért Mozgalom (Jobbik Magyarországért Movement)* (ongoing task according to the audit planning memorandum for the second half of 2019, audit subject serial no. 34/2.)
- 8/3. *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 second half of 2019, audit subject serial no. 34/3.)
- 8/4. *Financial regularity audit on the legality of the 2017-2018 financial management of Demokratikus Koalíció (Democratic Coalition)* (ongoing task according to the audit planning memorandum for the second half of 2019, audit subject serial no. 34/4.)
- 8/5. *Financial regularity audit on the lawfulness of the 2017-2018 financial management of Együtt – Korszakváltók Pártja (Together - Party for a New Era)* (ongoing task according to the audit planning memorandum for the second half of 2019, audit subject serial no. 34/5.)
- 8/6. *Financial regularity audit on the legality of the 2017-2018 financial management of Magyar Liberális Párt (Hungarian Liberal Party)* (ongoing task according to the audit planning memorandum for the second half of 2019, audit subject serial no. 34/6.)
- 8/7. *Financial regularity audit on the legality of the 2017-2018 financial management of Párbeszéd Magyarországért Párt (Dialog for Hungary Party)* (ongoing task according to the audit planning memorandum for the second half of 2019, audit subject serial no. 34/7.)
9. *Financial 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 second half of 2019, audit subject serial no. 35)
- 9/1. *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 second half of 2019, audit subject serial no. 35/1.)
- 9/2. *Financial regularity audit on the legality of the 2017-2018 financial management of Jobbik Magyarországért Alapítvány (Foundation for a Better Hungary)* (ongoing task according to the audit planning memorandum for the second half of 2019, audit subject serial no. 35/2.)
- 9/3. *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 second half of 2019, audit subject serial no. 35/3.)
- 9/4. *Financial regularity audit on the legality of the 2017–2018 financial management of Új Köztársaságért Alapítvány (Foundation for a New Republic)* (ongoing task according to the audit planning memorandum for the second half of 2019, audit subject serial no. 35/4.)
- 9/5. *Financial regularity audit on the lawfulness of the 2017–2018 financial management of 'Váradi András Alapítvány' (Váradi András Foundation)* (ongoing task according to the audit planning memorandum for the second half of 2019, audit subject serial no. 35/5.)
- 9/6. *Financial regularity audit on the lawfulness of the 2017-2018 financial management of Liberális Magyarországért Alapítvány (For a Liberal Hungary Foundation)* (ongoing task according to the audit planning memorandum for the second half of 2019, audit subject serial no. 35/6.)
- 9/7. *Financial regularity audit on the legality of the 2017–2018 financial management of Megújuló Magyarországért Alapítvány (Progressive Hungary)*

Foundation) (ongoing task according to the audit planning memorandum for the second half of 2019, audit subject serial no. 35/7.)

**II. MANDATORY AUDIT ASSIGNMENTS TO BE CARRIED OUT BASED ON
LEGISLATIVE AUTHORISATION
(UNDEFINED FREQUENCY)**

10. *Regularity audit on the operation of the Magyar Nemzeti Bank (Hungarian Central Bank)*
11. *The financial-accounting audit of the Resolution Fund*
12. *Audit of the parties not receiving regular central budget support*

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

13. *The audit of waste management*
14. *Protection of the population against contagious diseases*
15. *Audit on the task performance of National Tax and Customs Administration in relation to corporate income tax (ongoing task according to the audit planning memorandum for the second half of 2019, audit subject serial no. 16)*
16. *Audit of the control system of public education (ongoing task according to the audit planning memorandum for the second half of 2019, audit subject serial no. 20)*
17. *Audit of the Nemzeti Család- és Szociálpolitikai Alap (National Fund of Family and Social Policy Affairs) (ongoing task according to the audit planning memorandum for the second half of 2019, audit subject serial no. 25)*
18. *Audit on the contribution of the public debt management activity to reducing the gross external debt of Hungary (ongoing task according to the audit planning memorandum for the second half of 2019, audit subject serial no. 26)*
19. *Follow-up audits (second phase, ongoing task according to the audit planning memorandum for the second half of 2019, audit subject serial no. 2/1.)*
20. *20/1. Audit of public bodies (third phase, ongoing task according to the audit planning memorandum for the second half of 2019, audit subject serial no. 5/1.)*
20/2. Audit of public bodies (fourth phase, ongoing task according to the audit planning memorandum for the second half of 2019, audit subject serial no. 5/2.)
21. *21/1. Audit on non-governmental human service providers – Audit on the use of subsidies provided from the central budget to proprietors of public education and social institutions and service providers providing human services outside public finances (third phase; ongoing task according to the audit planning memorandum for the second half of 2019, audit subject serial no. 6/1.)*
21/2. Audit on non-governmental human service providers – Compliance audit on the utilisation of funds granted from the central budget to proprietors of social institutions providing human services outside public finances (fourth phase, ongoing task according to the audit planning memorandum for the second half of 2019, audit subject serial no. 6/2.)
21/3. Audit of non-governmental human services providers - Audit on the use of central budget subsidies received by proprietors 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 second half

of 2019, audit subject serial no. 6/3.)

- 21/4. *Audit of non-governmental human services providers* - Audit on the use of central budget subsidies received by proprietors of institutions, service providers providing public education and social human services outside of public finances (sixth phase)
22. *Performance audit on public library supply* (third phase, ongoing task according to the audit planning memorandum for the second half of 2019, audit subject serial no. 7/2.)
23. *Audit of local governments* (ongoing task according to the audit planning memorandum for the second half of 2019, audit subject serial no. 9)
24. 24/1. *Audit of central budgetary institutions* (ongoing task according to the audit planning memorandum for the second half of 2019, audit subject serial no. 10/1.)
24/2. *Audit of central budgetary institutions* (second phase, ongoing task according to the audit planning memorandum for the second half of 2019, audit subject serial no. 10/2.)
25. 25/1. *Performance audit of management and ownership duties of central budgetary institutions* (ongoing task according to the audit planning memorandum for the second half of 2019, audit subject serial no. 11/1.)
25/2. *Performance audit of management and ownership duties of central budgetary institutions* (phase two, ongoing task according to the audit planning memorandum for the second half of 2019, audit subject serial no. 11/2.)
26. *Audit on financial management of foundations/public foundations* (third phase, ongoing task according to the audit planning memorandum for the second half of 2019, audit subject serial no. 12)
27. *Audit of state-owned business associations* (ongoing task according to the audit planning memorandum for the second half of 2019, audit subject serial no. 14)
28. *Audit of minority state ownership* (ongoing task according to the audit planning memorandum for the second half of 2019, audit subject serial no. 24)
29. *Audit on the budget headings belonging to the central subsystem of the national budget* (ongoing task according to the audit planning memorandum for the second half of 2019, audit subject serial no. 27)
30. 30/1. *Audit of local governments based on financial monitoring* (ongoing task according to the audit planning memorandum for the second half of 2019, audit subject serial no. 1/1.)
30/2. *Audit of local governments based on financial monitoring* (phase two, ongoing task according to the audit planning memorandum for the second half of 2019, audit subject serial no. 1/2.)
31. 31/1. *Audit of follow-up audits based on monitoring* (ongoing task according to the audit planning memorandum for the second half of 2019, audit subject serial no. 3)
31/2. *Follow-up audits* (third phase, ongoing task according to the audit planning memorandum for the second half of 2019, audit subject serial no. 2/2.)
32. *Performance audit on public library suppliers* (ongoing task according to the audit planning memorandum for the second half of 2019, audit subject serial no. 8)
33. *Audit of foundations/public foundations* (ongoing task according to the audit planning memorandum for the second half of 2019, audit subject serial no. 13)
34. *Audit of the wealth of state-owned business associations* (ongoing task according to

the audit planning memorandum for the second half of 2019, audit subject serial no. 15)

35. *Audit on the integrity of local governments of villages and towns* (ongoing task according to the audit planning memorandum for the second half of 2019, audit subject serial no. 22)

36. *Audit on the integrity of business associations in majority state or municipality ownership* (ongoing task according to the audit planning memorandum for the second half of 2019, audit subject serial no. 23)
37. *Audit of other bodies as per the Accounting Act receiving central budget support*

IV. INTERNATIONAL AUDITS

38. *Audit on the measures taken to improve the circumstances of people living below the poverty threshold* (ongoing task according to the audit planning memorandum for the second half of 2019, audit subject serial no. 21)

I.

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

The 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: is to determine whether the content, structure of the final accounts bill complied with the statutory requirements, whether the provisions of the Fundamental Law and of the law on the economic stability of Hungary related to public debt were met, whether the change in the deficit in the central budgetary subsystem complied with the requirements of the Act on the central budget of 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 annually. The SAO, by fulfilling its statutory obligation, makes it possible for the National Assembly to make a substantiated decision on the adoption of the Final Accounts Act. The result of the audit provides a comprehensive and objective picture on the reliability of the data provided in the final accounts bill for the year 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.

The final accounts include the audit of the funds used to prepare and conduct the 2019 parliamentary elections and parliamentary by-elections.

Topic No.: 2

The type of the audit: conformity audit

OPINION ON THE 2021 CENTRAL BUDGET

Opinion on the 2021 budget appropriation bill of Hungary

The objective of the audit: to assess whether the drafting of the central budget bill complies with the statutory requirements, and whether the revenue and expenditure appropriations of the budget appropriation bill and the total figures of the planned appropriations for the three-year period following the fiscal year were planned with regard to the macroeconomic forecasts; whether the methods, background calculations, impact studies, and the recommended modifications to the government regulatory devices ensured the validity of the bill. An inquiry has to be carried out into whether the requirements defined in the Planning Guidelines were met, whether the public debt rule is fulfilled as determined in the Fundamental Law and the Economic Stability Act, whether the bill and the plans incorporated in the governmental programs were harmonized; whether the planned appropriations include the expenditure required for the performance of the public duties, whether the financial and economic impacts of EU membership was taken into consideration.

The SAO, in relation to the opinion formed on the budget, contributes to the work of the Fiscal Council (FC) by preparing analyses. As part of its supporting activity, the SAO forms an opinion on the 2021 budget appropriation bill with regard to its validity and feasibility, and, in addition, it evaluates the calculation methods of the public debt indicator, as well as the enforcement of the debt rule specified in the Fundamental Law of Hungary.

Justification of the audit and expected results: By fulfilling its legal obligations, the SAO forms its opinion on the budget appropriation bill, highlighting its risks. Through this, it supports the Members of Parliament in accepting a budget act that is compliant with the legislative requirements. The analyses prepared by the SAO for the Fiscal Council contribute to the ability of the Fiscal Council to form a substantiated opinion on the draft of the 2021 budget appropriation bill and the fulfillment of the debt rule.

The 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, 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

The type of the audit: conformity 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

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

Justification of the audit and expected results: Based on Clause (a) of Section 5 (11) of Act LXVI of 2011 on the State Audit Office of Hungary, and Section 10 (1) of Act XXXIII of 1989 on the Operation and Financial Management of Political Parties, the SAO is 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.

The type of the audit: conformity 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: 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 audited entity implemented the tasks specified in the action plan drawn up by the audited organization 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 legal obligation, the SAO biennially examines the financial management of foundations of political party 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 concrete 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 goals of the SAO through value creation.

Topic No.: 6

The type of the audit: conformity audit

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

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

Justification of the audit and expected results: The scope of the revenues shared by the 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 SAO's activity, which contributes to establishing and maintaining a value-creating order, will have a positive impact on the image of the organization. Within the organization of the SAO, it allows the institution to strengthen its added value-creating activity and counselling role.

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

Topic No.: 8

The type of the audit: conformity 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 Magyar Szocialista Párt (Hungarian Socialist Party)*
- 8/2. *Financial regularity audit on the legality of the 2017-2018 financial management of Jobbik Magyarországért Mozgalom (Jobbik Magyarországért Movement)*
- 8/3. *Financial regularity audit on the legality of the 2017–2018 financial management of the Lehet Más a Politika (Politics Can Be Different)*
- 8/4. *Financial regularity audit on the legality of the 2017-2018 financial management of Demokratikus Koalíció (Democratic Coalition)*
- 8/5. *Financial regularity audit on the legality of the 2017-2018 financial management of Együtt – Korszakváltók Pártja (Together – Party for a New Era)*
- 8/6. *Financial regularity audit on the legality of the 2017-2018 financial management of Magyar Liberális Párt (Hungarian Liberal Party)*
- 8/7. *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, and whether the relevant legal and internal requirements in bookkeeping and financial management were adhered to, and whether the party used legitimate and eligible resources for its operation; furthermore, whether the party took action to address deficiencies detected by the previous SAO audit, and the regularity of issues identified as essential on the basis of risk signals.

Justification of the audit and expected results: Based on Clause (a) of Section 5 (11) of Act LXVI of 2011 on the State Audit Office of Hungary, and Section 10 (1) of Act XXXIII of 1989 on the Operation and Financial Management of Political Parties, the SAO is 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.

The type of the audit: conformity audit

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

9/1. *Financial regularity audit on the legality of the 2017–2018 financial management of Táncsics Mihály Alapítvány (Táncsics Mihály Foundation)*

9/2. *Financial regularity audit on the legality of the 2017–2018 financial management of Jobbik Magyarországért Alapítvány (Foundation for a Better Hungary)*

9/3. *Financial regularity audit on the legality of the 2017–2018 financial management of Ökopolisz Alapítvány (Ökopolisz Foundation)* 9/4. *Financial regularity audit on the legality of the 2017–2018 financial management of Új Köztársaságért Alapítvány (Foundation for a New Republic)*

9/5. *Financial regularity audit on the legality of the 2017–2018 financial management of Váradi András Alapítvány (Váradi András Foundation)*

9/6. *Financial regularity audit on the legality of the 2017–2018 financial management of Liberális Magyarországért Alapítvány ((Foundation for a Liberal Hungary)*

9/7. *Financial regularity audit on the legality of the 2017–2018 financial management of Megújuló Magyarországért Alapítvány (Progressive Hungary Foundation)*

The objective of the audit: to assess the legality of the financial management of the party foundation, the compliance of annual accounting reports and party foundation's annual activity reports with the legal requirements, as well as compliance with the relevant statutory provisions and internal regulations in the course of bookkeeping and financial management. Furthermore, to assess whether audited entity implemented the tasks specified in the action plan drawn up by the audited organization 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 legal obligation, the SAO biennially examines the financial management of foundations of political party 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 concrete 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 goals of the SAO through value creation.

II.

**MANDATORY AUDIT ASSIGNMENTS BASED ON
LEGISLATIVE AUTHORIZATION
(FREQUENCY NOT DEFINED)**

The type of the audit: conformity audit

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

The objective of the audit: to assess whether the governance, decision-making and control system of the Magyar Nemzeti Bank (Hungarian Central Bank) functioned in a regulated and regular manner in respect of the non-core activities and financial management of MNB; whether MNB's financial management, and its activity supervising, auditing and regulating the financial intermediary system, as well as its regulatory resolution activity complied with legal provisions.

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 operations.

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 operations 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.: 11

The type of the audit: conformity 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 internal regulations and its accounting system ensured that accounts were prepared regularly.

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 financial-accounting audit of the Resolution Fund is carried out by the State Audit Office of Hungary.

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 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 the 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 balance of the organization, thus contributing to preserving the stability of the financial intermediary system and protecting public funds.

The type of the audit: conformity 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 financial statement disclosure obligation set forth in Section 9 (1) of the Political Parties Act and whether they have established the management framework for their regular financial management.

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, too. 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 that requires that audits are 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

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 that this public task is performed appropriately, effectively and efficiently.

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, among 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.

Topic No.: 14

The type of the audit: compliance 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, 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.

The type of the audit: compliance audit

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

The objective of the audit: to assess the effectiveness of the duties performed by the National Tax and Customs Administration related to corporate income tax. The SAO audit assesses the regularity and legal compliance of certain activities related to corporate income tax (processing of tax reports, planning and execution of audits, management of outstanding debts, the collection of residues, data provisions), and, in connection to this, assesses the adequacy of establishing and operating the internal control mechanisms ensuring regular task performance, and it also assesses the record-keeping, data provision and controlling activities of the National Tax and Customs Administration (NAV) in relation to the benefits deductible from corporate tax.

Justification of the audit and expected results: The SAO performs its performance audits on the duties of the NTCA annually on the basis of a schedule, focusing on the areas of activity that are considered to be at risk based on previous audit experiences. Past audits of the SAO did not cover the full scope of taxes, endorsable tax allowances, and the associated task performance of the tax administration. With regard to the taxes that have not been previously audited, it is justified that the SAO audits and assesses the performance of duties by NTCA in connection to tax collection, tax records and tax inspection.

Topic No.: 16

Type of the audit: compliance and performance audit

THE AUDIT OF THE CONTROL SYSTEM OF PUBLIC EDUCATION

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

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

– ensured by the right to free and compulsory primary education, free and generally accessible secondary education established by the Fundamental Law of Hungary, and provided by the state of Hungary under its public service remit.

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

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

In the field of public education, the SAO’s activity may contribute to the raising of awareness to and the strengthening of the principle of responsible financial management.

Type of the audit: compliance and performance audit

**AUDIT OF THE NEMZETI CSALÁD- ÉS SZOCIÁLPOLITIKAI ALAP
(NATIONAL FUND OF FAMILY AND SOCIAL POLICY AFFAIRS)**

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

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

Audits of the final accounts for the past years have respectively shown that accounted expenditures declared for the Nemzeti Család- és Szociálpolitikai Alap (National Fund of Family and Social Policy Affairs) were not reliable. An identified risk was that the verification of legality and accountability prior to the payment of family allowances was not ensured by the competent organizational units of government offices. The audit on the comprehensibility of documents substantiating the disbursement of family allowances was not performed.

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

Topic No.: 18

Type of the audit: compliance and performance audit

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

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

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

The stability, productivity and sustainability of the Hungarian economy is crucial for the country, and the external vulnerability and the rate of public debt continue to decline as the result of the strategic decisions in this respect. Within the framework of its analysis, the SAO examined the evolution of Hungary's gross external debt and the factors that affect it. According to the findings of the analysis, the improvement in the gross external debt was aided by the increased proportion of domestic savings in the financing of the public debt, which, as a consequence, leads to reduced proportion of foreign financing. The audit is justified by the need to deepen the understanding of the context of change, to fortify favorable processes, to identify possible risks, as well as to objectively inform the National Assembly and the general public.

The type of the audit: compliance audit

FOLLOW-UP AUDITS

(second phase)

The objective of the audit: to assess whether the audited entity have 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 responsible.

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

Incomplete or late implementation or the failure of the implementation of the measures included in action plans prepared by the head of the audited organization, carry a risk in respect of regularity and responsible managerial behavior, 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.

Topic No.: 20/1

The type of the audit: compliance audit

AUDIT OF PUBLIC BODIES

(third 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.

As a result of the audit, experience will be gathered to legislature 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.

The 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 legislature 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.: 21/1

The 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

(third 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 grants received from the central budget in compliance with regulations, and whether the requests for the grants, their mid-year modification and end-of-year settlement were in accordance with legal regulations.

Justification of the audit and expected results: The annual budget acts in effect from time to time provided significant amounts in the way of financial support for operators of non-governmental institutions performing public educational and social 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 753 billion HUF in the years 2014-2016. In 2013, substantial changes took place in the system of normative funding. The Parliament adopted Act CXC of 2011 on National Public Education, which significantly transformed the former funding system as of September 2013. Act III of 1993 on Social Governance and Social Benefits was also amended, which, amongst others, laid out the regulations related to acceptance into the funding system, effective as of January 1, 2012. The audit focuses on the changes that took place in the funding system between 2011 and 2015 and their impacts on performing public duties in terms of the organisations outside of public finances using budget support. With its recommendations, the audit can contribute to the regular subsidy-use of said organisations 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 area have not yet been audited by the State Audit Office of Hungary.

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

The 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 grants received from the central budget in compliance with regulations, and whether the requests for the grants, their mid-year modification and end-of-year settlement were in accordance with legal regulations.

Justification of the audit and expected results: The 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. 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 to ensure that even the organisations outside the state budget use public funds in a transparent way in order to perform public service tasks in a contractual manner. The audit shows to society that the use of public funds outside of public finances cannot remain uncontrolled. With its recommendations, the audit can contribute to the regular subsidy-use of said systems 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.

Topic No.: 21/3

The 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 grants received from the central budget in compliance with regulations, and whether the requests for the grants, their mid-year modification and end-of-year settlement were in accordance with legal regulations.

Justification of the audit and expected results: The annual budget acts in effect from time to time provided significant amounts in the way of financial support for operators of non-governmental institutions performing public educational and social 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 828 billion HUF 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, we assess the compliance of the use of supports related to activities of public educational and social functions outside of public finances at operators and their institutions chosen based on individual risk analyses in the framework of the audit.

The 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 grants received from the central budget in compliance with regulations, and whether the requests for the grants, their mid-year modification and end-of-year settlement were in accordance with legal regulations.

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

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. The audit provides opportunity for both individual and group evaluations, and the scope of the audit can include the auditing of the compliance of additional material areas based on risk indicators and depending on the risk assessment until the date of commencement of the audit, taking into consideration the legal requirements and the public methodology published by the State Audit Office of Hungary.

Topic No.: 22

The type of the audit: compliance audit

PERFORMANCE AUDIT ON PUBLIC LIBRARY SUPPLY

(third phase)

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

Justification of the audit and expected results: The amount of public funds used for the maintenance of libraries, the diversity of the operators of 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. With the findings of particular audits and the analysis of audit results of a given period, the SAO can draw the attention of legislators to financial or regulatory risks potentially arising in the central sub-system or a sector thereof.

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 its authorisation granted to it in the Act on SAO, audits the financial management and operation of local governments in order to support the regular financial management of audited local governments with the findings of its audit 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 organisation. With the findings of particular audits and the analysis of audit results of a given period, the SAO can draw the attention of legislators to financial or regulatory tensions potentially arising in the local government sub-system. In the course of the numerous audits carried out, the SAO can also identify “*good practices*”, and can introduce such good practices to a wider scope of stakeholders in its consulting function, thus also contributing to the regulated, transparent, balanced and sustainable operation of the local government subsystem.

In order to conduct efficient and practical audits, they are carried out with the use of modules adjusted to the specific and significant risks typical of the selected auditees, as established in the course of the preliminary risk analysis. The highlighted subjects of audits carried out via modules:

- integrity and internal control: evaluates how controlled the operation of local governments is as well as how protected they are against corruption,
- financial management: evaluates financial balance and the financial processes
- property management: evaluates the property management, the protection of state property and the preservation of its value at local governments,
- 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 organisation and certain parts thereof (effectiveness, expediency, efficiency, economy) (including, amongst others: the performance of the economic area, leadership performance),
- audit of institutions: regularity audit for substantiating the performance audit module, evaluates the property management of institutions.
- audit of minority local governments: the financial management of founded and operated institutions, auditing the operation of the internal control system, evaluating the use of subsidies provided and the properties provided on a gratuitous basis.

Topic No.: 24/1

Type of the audit: compliance and performance audit

AUDIT OF CENTRAL BUDGETARY INSTITUTIONS

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

Justification of the audit and expected results: The property of organisations belonging to the central subsystem of public finances forms part of national assets, and it is also set out in the Fundamental Law that the management of the assets 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 organisation. With the findings of particular audits and the analysis of audit results of a given period, the SAO can draw the attention of legislators to financial or regulatory tensions potentially arising in the central sub-system or a sector of the same. In the course of the audits carried out, the SAO can also identify “good practices” , and can introduce such good practices to a wider scope of stakeholders in its consulting 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 organisation, 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 organisation to implement the investment,
- performance audit: evaluates the effectiveness of the economic area of the organisation and measures leadership performance.

Type of the audit: compliance and performance audit

AUDIT OF CENTRAL BUDGETARY INSTITUTIONS

(second phase)

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

Justification of the audit and expected results: The property of organisations belonging to the central subsystem of public finances forms part of national assets, and it is also set out in the Fundamental Law that the management of the assets 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 organisation. With the findings of particular audits and the analysis of audit results of a given period, the SAO can draw the attention of legislators to financial or regulatory tensions potentially arising in the central sub-system or a sector of the same. In the course of the audits carried out, the SAO can also identify “good practices”, and can introduce such good practices to a wider scope of stakeholders in its consulting 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 organisation, 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 organisation to implement the investment,
- performance audit: evaluates the effectiveness of the economic area of the organisation and measures leadership performance.
- the audit of hospitals and vocational schools based on risk assessment: the programme provides opportunity for both individual and group evaluations, and the scope of the audit can include the auditing of the compliance of additional material areas based on risk indicators and depending on the risk assessment until the date of commencement of the audit, taking into consideration the legal requirements and the public methodology published by the State Audit Office of Hungary.

Topic No.: 25/1

The type of the audit: compliance audit

**PERFORMANCE AUDIT ON THE MANAGEMENT AND PROPRIETARY
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 organisational 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 consulting function, thus also contributing to the regulated, transparent and balanced operation of the central budget system.

The type of the audit: compliance audit

**PERFORMANCE AUDIT ON THE MANAGEMENT AND PROPRIETARY 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 organisational 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 consulting function, thus also contributing to the regulated, transparent and balanced operation of the central budget system.

Topic No.: 26

The type of the audit: regularity audit

AUDIT ON THE FINANCIAL MANAGEMENT OF FOUNDATIONS/PUBLIC FOUNDATIONS

(third phase)

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

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

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

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 organisation, 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 investment performed with the use of funds from the central budget as well as the preparedness of the organisation to implement the investment
- performance audit: evaluates the effectiveness of the economic area of the organisation and measures leadership performance
- exercise of proprietary rights: evaluates whether the person exercising the owner's rights exercised such rights over its business associations in a compliant manner
- ESA: evaluates whether the elements of the financial management of the company classified in the government sector influencing the deficit of the government sector and public debt complied with the legal regulations.
- Risk of liquidation: evaluates whether the financial management of the business association was monitored in order to prevent liquidation and loss of assets.

Topic No.: 28

The 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.

The type of the audit: compliance audit

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

Objective of the audit: to assess whether the establishment of budgetary chapters, chapter-managed appropriations and the operational and organisational frameworks of the institutions governing the chapters 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, among others, the financial management and operation of budgetary institutions for the purpose of managing the risks identified with the continuous risk assessment of the risks explored during the audit and the area in order to support the regular financial management of the audited entities with the findings of the audits 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 using a novel approach, 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.

Topic No.: 30/1

The type of the audit: compliance audit

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

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 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-governed state” and of the local governments.

The 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 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-governed state” and of the local governments.

Topic No.: 31/1

The type of the audit: compliance audit

AUDIT OF FOLLOW-UP AUDITS BASED ON MONITORING

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

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

Pursuant to the provisions of Government Decree No. 370/2011 (XII. 31.) on the internal control system and internal audit of central budgetary institutions (hereinafter: Bkr Decree), the head of the body or organisational 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. The SAO applies a risk assessment based audit approach during the follow-up audits.

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

The type of the audit: compliance audit

FOLLOW-UP AUDITS

(third phase)

The purpose of the audit: to assess whether the audited entity implemented the tasks determined in the action plan made in accordance with the findings requiring actions included in the audit report.

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

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

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

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

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

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

Topic No.: 32

The type of the audit: compliance audit

PERFORMANCE AUDIT ON PUBLIC LIBRARY SUPPLIERS

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

Justification of the audit and expected results: The amount of public funds used for the maintenance of libraries, the diversity of the operators of 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 risk areas in comparison with the reports of previous audits. The scope of the audit may include auditing the regularity of additional material areas, based on risk indicators and depending on the risk assessment, until the date of commencement of the audit, taking into consideration the legal requirements and the public methodology published by the SAO.

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

The type of the audit: compliance audit

AUDIT OF FOUNDATIONS/PUBLIC FOUNDATIONS

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

Justification of the audit and expected results: Foundations receive a significant amount of budget support annually. Due to their diverse range of activities they are connected to society on several levels. It is a social requirement to use public funds on the basis of values, for the intended purpose and to establish the transparency of supports provided from public funds. The SAO audits 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 utilised funds and the accountability of the financial management of public funds, the SAO promotes an objective view for society in respect of the functioning of foundations. It is a strategic objective of the SAO to contribute to the transparent use of public funds at entities outside the state budget, by performing the audit of budget supports and asset transfers granted to these organisations.

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

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

Topic No.: 34

The 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 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 centre 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 the management of assets by business associations, and, by defining focal points, it 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.

The 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 risky areas and activities in the controls in addition to the availability of the same.

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

Topic No.: 36

The type of the audit: compliance audit

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

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

Justification of the audit and expected results: The 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.

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.

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

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

The objective of the audit: to assess whether the organisation created the conditions for the preservation of national assets and the regular use of public funds, whether its financial management and asset preservation activities complied with statutory requirements, whether it fulfilled its recording and accounting obligations regularly, and whether it complied with the provisions of industry-specific legislation.

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. Organisations 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 authorisation. 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 State Audit Office of Hungary, by fulfilling its obligation and strategic objective, audits the financial management of other organisations as per the Accounting Act.

The audit includes the other organisations as per Paragraph 3 of Section 4 of the Accounting Act whose financial management as well as obligation of reporting and bookkeeping is 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 organisations 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 organisations. 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 organisations and to the transparent and accountable use of public funds.

IV

INTERNATIONAL AUDITS

The type of the audit: performance audit

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

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

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

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

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

The audit is substantiated by the fact that the State Audit Office of Hungary has not yet carried out audits addressed to the measures pertaining to the mitigation of poverty that encompass the entire field.