



STATE AUDIT OFFICE OF  
HUNGARY

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# AUDIT PLANNING MEMORANDUM

second half of 2021

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Approved by:  
László Domokos  
President

Budapest, July, 2021

Our audit reports are available on the computer network of the National Assembly and on the Internet on our website at [www.asz.hu](http://www.asz.hu).

## *Introduction*

The State Audit Office of Hungary (SAO) is the supreme financial and economic audit institution of the National Assembly. Based on a safeguard provision of Act LXVI of 2011 on the State Audit Office of Hungary (hereinafter: SAO Act) the SAO pursues its activity in accordance with six-monthly audit plans approved by its President. The SAO submits its audit planning memorandum to the National Assembly, and publishes it on its website. Within its responsibilities defined by the law, the SAO supports the work of the National Assembly, its committees and the audited entities with its conclusions and recommendations to support the well-managed proper functioning of the state. The provisions of the Fundamental Law and the SAO Act guarantee the transparency of the audit activity carried out by the SAO.

Pursuant to the provisions of the SAO Act the SAO has general competence to audit the responsible management of public funds as well as state and municipal assets. The SAO establishes the rules and methods of the audit procedures independently, while 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 semi-annual audit planning memorandum of the SAO is composed of three sections:

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

During the preliminary work that precedes the identification of topics selected based on risk analysis and the selection of the related audit sites the SAO analyses the inherent risks of each field based on its audit experiences. In addition, it utilises the facts obtained on the basis of information, indications and other documents submitted to it in the course of its ongoing audits, or in the planning of such audits.

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

In order to complete this mission and owing to the parliamentary resolution, the consulting activity of the SAO will be given more emphasis in addition to its auditing and analysing tasks, and it will offer support to organisations of public services to meet the provisions related to public finances, and thus to use public funds in a regular and effective way.

As a fundamental requirement for efficient and high-quality performance the SAO seeks to improve its audit methodologies taking into account practical experiences, as well as international methodological standards and recommendations. In the second half of 2021 the SAO will perform audits by using the methods of compliance and performance control in order

to ensure the transparent and accountable management of public funds and public assets. The compliance audits facilitate compliance of the audited organisations and their activities with the relevant statutory regulations, provisions and requirements in all material aspects, while the performance audits facilitate the observance of the principles of effectiveness and efficiency.

In the course of implementing its audits the SAO applies document-based approaches improved continuously through opportunities offered by digitization. Through opportunities offered by digitization, the SAO continuously improves the document-based approaches. This approach makes it even more certain that the audit findings are based on evidence, that is the documents generated and accessible in the audited period or before that, thus reconstructing the facts of the given period. The approach further ensures the objective evaluation of the audited entities according to the same criteria, if the audit is conducted at multiple audited organisation on the basis of a given auditing programme.

In order to increase the audit coverage of the specific areas and to reduce the workload on the audited entities, the audits relying on new technology will continue in the second half of 2021 as well. In order to cover a substantial population, in addition to the local governments the audits will be extended to municipal institutions, central budgetary institutions and nationally owned business organisations, public bodies and other entities.

The relevant legislation requires the SAO to carry out obligatory audit functions with a yearly or two-yearly frequency. Accordingly, as a primary assignment, the SAO will commence *the review of the local government decree on the division of revenues due to and shared by the Budapest Municipality and the Budapest district local governments in 2021*.

The audits started on the basis of the SAO's legal obligation will continue, including the audit of *the final accounts on the implementation of Hungary's central budget for 2020* as a priority assignment.

In the frames of auditing the activities related to the *exercise of proprietary rights over state assets*, the SAO will continue the audit started in the first half of the year in relation to the handling and the financial management of assets falling within the scope of public finances.

Based on its legislative authorisation and the established biennial frequency, the SAO will audit the financial management of *political parties and party foundations receiving budget support*. Accordingly, the SAO will continue to audit the lawfulness of the financial management of the political parties registered in Hungary in order to endorse the safeguard requirement deriving from the rule of law in Hungary that ensures control over the legality of the financial management of every political party.

The performance of further statutory audit assignments will continue in the second half of 2021 in respect of organisation-specific audits carried out in predefined subjects. These audits will also affect the major subsections of public finances and the entities that are outside of public finances. In the case of organisation-specific audits, the SAO will focus on the development of targeted audit programmes, in order to support feedbacks with the most possible details on audit experiences and thus the provision of regular financial management.

In fulfilling its legal obligations, the SAO continues to put great emphasis on assessing the operation of the internal control system and the accounting framework of public finances.

The SAO will continue to audit local governments, central budgetary institutions and nationally owned business organisations. In its audits, the SAO will focus on those areas of activity where its recommendations are able to achieve the widest ranging social benefits. In regard to the listed bodies the SAO may use integrity, internal control, property management, major investment, exercising of proprietary rights and organisation performance audit modules. There will be special emphasis on the audit of municipal institutions in the second half of the year. In the case of central budgetary institutions the audit of middle management bodies will continue including their administration, financial management and property management activities. The SAO will focus on the auditing of institutions of higher education affected by a change in operator, and the SAO will evaluate whether the preservation and protection of national assets required for higher education of proper level were ensured at these universities before the change in their operator, and whether the transfer was completed in a regular way.

In the framework of the *audit of municipalities* the monitoring of the data available in the central information system of the Hungarian State Treasury will continue, with which the SAO, forming groups, will assess municipalities. By inspections based on the evaluation of monitoring reports and exploring the risks affecting the financial balance situation of municipalities, the SAO contributes to ensuring the sustainability of the management and performance of municipalities.

In connection with other statutory audit duties assigned to the SAO it will continue the risk-based auditing at the sites of public library services, municipal institutions, nationally owned business organisations, educational district centres and non-public human service providers. The risk-based audits provide an opportunity for the SAO to obtain an objective picture of the areas carrying risk regarding future management at a wide range of organisations by categorising the audited entities on the basis of the same characteristics and evaluating material documents based on key aspects. In the second half of 2021 the SAO will also contribute to the improvement of public finances by applying a monitoring-based audit approach. Focusing on the material documents of the present status, the monitoring-based audits support the public finance situation of the audited entities with real-time evaluation and recommendations for the future. The monitoring-based audits going on and planned to be implemented amongst central budgetary institutions, municipal institutions, businesses with majority state or local government ownership, non-governmental human service providers and public bodies will focus on some key areas and the basic documents of the entire scope or a larger group of entities using public funds and public assets. With this approach the audit coverage can be significantly increased, also allowing the evaluation of entities using public funds and public assets not audited before. The evaluation of a small number of targeted documents makes it possible for the SAO to identify irregularities and, by calling the audited entity's attention to the specific issue, to improve public finances. In addition to decreasing the workload on the audited entities, the methodological and digital improvements help reduce the time required by, and increase the efficiency of the audits.

The SAO will continue auditing the *chapters of the central subsystem* of the national budget, and will continue *follow-up audits*, too, which can reveal whether the errors and deficiencies identified in auditing the management of public funds and public assets have been eliminated and the risks of the irregular operation of the specific organisations have been reduced through the same, and whether public finances have been improved in general.

Following the auditing of all local governments in Hungary in 2022, the SAO finds it extremely important to audit the controlling agencies that form the second line of defense of local governments (government offices in Budapest and in the counties). Based on that, the SAO

started the auditing of government offices in the first half of the year, and these audits will continue in the second half of the year, too.

The audit of *measures taken in the interest of developing a digital state* will continue. In the course of this audit, the SAO will assess whether the measures aimed to develop the digital state effectively contributed to the goals set out in the Government's infocommunication strategies and if the available digital public services and e-administration efficiently supported the citizens (businesses) in managing their affairs and improving their quality of life.

In respect of the *effectiveness of utilising funds allocated to research and development and innovation purposes* it will be audited, among others, whether the planned and implemented research and development and innovation measures contributed to the accomplishment of the relevant strategic goals and the national income.

The SAO is required by law to audit the taxation activities carried out by the national tax authority and the local governments. In this framework the *activities of the local governments relating to local business tax* and of the *National Tax and Customs Administration relating to Itemised Tax for Small Businesses and Small Business Tax* will be audited.

The SAO will continue the *audit of the system of copyrights*, too, in the second half of the year. As a supreme auditor, the SAO will evaluate the supervisory activity and task performance of the Hungarian Intellectual Property Office relating to, and the accountability and transparency of the rights managers.

The *auditing of other organisations according to the accounting law* will also continue, in the course of which the SAO will evaluate the establishment of the frames of the financial management of individual foundations and associations, and whether they met their registration obligations related to the support received from the state budget.

The SAO carries out the *audits of the operation and financial management of regional development councils* on the basis of other legislative authorization, in the course of which it evaluates the enforcement of effectivity requirements in the operation of regional development councils, the financial management of their work organisations and the establishment and the operation of the internal control systems.

In the second half of 2021, the SAO will extend the audits to several areas and organisations not audited before. When *auditing nuclear security*, the regulation of official control assignments related to nuclear facilities and radioactive waste storage sites are audited, as well as whether the controlling, the regulation and the audit systems of organisations involved in the management and the use of the Central Nuclear Financial Fund ensured the proper use of allocated funds according to the rules and objectives.

In the frames of the *auditing of the audit activities of organisations controlling domestic electronic trade*, the SAO is planning to audit the conditions of auditing the trading activities on the internet, the regulated nature of conducting the audits and their effectivity.

Under the auditing of military procurements, the *controlling activities of the Defence Management Bureau related to military procurements* will be audited. In this audit, the SAO will evaluate whether the internal control system of the organisation ensured the performance of audit tasks.

Regarding the *audit of data and information published by the Hungarian State Treasury and its activities related to the management of reports*, the SAO intends to make sure that the internal control system of the Hungarian State Treasury and the audits conducted by it ensure the reliability of data that is mandatory to publish regarding the data in the reports and the debts of agencies belonging to the central subsystem of the national budget.

Also based on other legal authorisation, in connection with the *audit of data collection and data processing*, the SAO will evaluate whether the characteristics of the statistical data of the audited organisations will contribute to the ‘well-managed’ state.

The SAO supports the integrity based use of public funds by voluntary, updated self tests downloadable from its website and extended with a new target group, through the completion of which the organisations can get objective information concerning the fields in respect of which their financial management, controlling and regulatory activities meet the provisions of legal regulations and the fields that should be improved. The SAO pays particular attention to mapping the operation of the integrity and internal control systems and asset management as a prerequisite for the regular and responsible management of public funds and national assets.

In order to further utilize its audit findings the SAO will prepare summary analyses of its comprehensive audit experiences gained in respect of multiple entities operating in the same industry. The analyses highlight the risks inherent in the activities of the entities operating in each industry audited by the SAO, as well as the areas to be developed.

In its resolution 17/2021 (VI. 16.) the National Assembly confirmed the consulting activity of the SAO, and it is already taken into consideration by the SAO in the production of this audit plan. Under the consulting and educating functions of the SAO, it will continue to support the audited organisations by presenting the detected and potential irregularities and their key characteristics, thus facilitating an earlier improvement in the status of public finances. Accordingly, in a number of audits, the SAO offers advice to the audited organisations already during the audits.





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**I.**

**I. AUDITS TO BE CARRIED OUT ANNUALLY OR BIENNIAL-  
LY BY LAW OR RELATING TO OTHER EVENTS**



**Type of the audit:** regularity audit

**REVIEW OF THE LOCAL GOVERNMENT DECREE ON THE DIVISION OF REVENUES DUE TO AND SHARED BY THE BUDAPEST MUNICIPALITY AND THE BUDAPEST DISTRICT LOCAL GOVERNMENTS IN 2021**

**Objective of the audit:** to audit the division of revenues shared by the Budapest Municipality and the Budapest district local governments in 2021 and to determine the regularity of expenses in the accounts relating to local taxation.

**Justification of the audit and expected results:** The scope of revenues shared by the Budapest Municipality and the Budapest district local governments and the rules of resource allocation are determined by Act CXXXIII of 2006 on the allocation of resources between the Budapest Municipality and the Budapest district local governments. As mandated by the law, the SAO reviews the resource allocation decree of the Budapest Municipality for the specific year. If it is found that the Budapest Municipality or any Budapest district local government received resources unlawfully or on a scale less than would have been due, the Budapest Municipality is to issue a decree to modify the resource allocation with the amount of the discrepancy for the year following the closing of the review based on the Resource Allocation Act.

The output of the audit is expected to be utilized at multiple levels. The audit provides feedback to the audited entities on the regularity of the implementation of resource-sharing, and its recommendations contribute to the elimination of deficiencies, if any. It demonstrates to the society that not even the planned division of public funds can be left unaudited, and the activity of the SAO which helps create and maintain value contributes to positively influencing the overall image of the specific entities.



**Topic No.: 2**

**Type of the audit: compliance audit**

## **2020 FINAL ACCOUNTS**

### **Compliance audit on the implementation of the 2020 central budget of Hungary**

**Objective of the audit:** to determine whether the content and structure of the final accounts bill complied with the statutory requirements; whether the provisions of the Fundamental Law and the Act on the economic stability of Hungary relating to public debt were met, and the deficit in the central budgetary subsystem complied with the requirements of the Act on the 2020 central budget (Budget Act). Furthermore, it is to determine whether the government revenues were used in compliance with the statutory requirements for the management of public funds as determined in the Budget Act; whether the final accounts bill truthfully presents the financial data and information related to the implementation of the budget; whether the implementation of the revenue and the expenditure appropriations of the central budget complied with the statutory requirements or contained any material deficiency; whether the officials with authorization and competence to implement the budget managed the public funds in a regular manner, in the financial framework determined in the 2020 central budget.

The audit covers the monitoring of the 2021 budgetary processes, particularly the factors influencing changes in public debt.

**Justification of the audit and expected results:** According to the Fundamental Law the audit on the implementation of the central budget is to be carried out by the SAO. Based on the provisions of the SAO Act the SAO is responsible for auditing the final accounts on an annual basis. In fulfilling its statutory obligation the SAO makes it possible for the National Assembly to adopt the Final Accounts Act based on a substantiated decision. The results of the audit will provide a comprehensive and objective picture on the reliability of the data contained in the final accounts bill for the year 2020. With its conclusions the SAO facilitates the responsible financial management of public funds by the audited entities, and the audits contribute to establishing and maintaining a system that creates values.

**Type of the audit:** regularity audit

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

**Objective of the audit:** to assess whether the controls established at the entities exercising proprietary rights over state assets ensured the exercise of these rights in a regular manner, and whether the relevant statutory requirements were observed.

**Justification of the audit and expected results:** Pursuant to Article 3 (4) of Act CVI of 2007 on state assets, the exercise of proprietary rights over state assets is audited by the SAO annually. Furthermore, Article 14 (1) of Act LXXXVII of 2010 on the National Land Fund provides for the annual audit of activities related to the exercise of proprietary rights over the National Land Fund.

In accordance with its legal obligation, and in order to facilitate the responsible management of public assets, the SAO annually audits the task performance of the entities that exercise proprietary rights over state assets, covering a significant portion of national assets.

As a result of the audit, the SAO forms an opinion whether the performance of the entities involved in exercising the proprietary rights of the Hungarian State complied with the provisions of the laws relating to state assets. The audit may identify regulatory issues at the entities exercising proprietary rights over state assets, system-level shortcomings, or long-term persistent defects. With the audit findings the SAO contributes to eliminating these shortcomings and to reinforcing the controls over, and the responsible, appropriate management of state assets. The audit provides information to the legislative authorities, the affected entities and the society concerning the duty of exercising proprietary rights over state assets, thereby contributing to transparency and substantiating the decisions affecting this area.

## Topic No.: 4

Type of the audit:                    **regularity audit**

### **FINANCIAL REGULARITY AUDIT ON THE LEGALITY OF THE 2019–2020 FINANCIAL MANAGEMENT OF POLITICAL PARTIES RECEIVING BUDGET SUPPORT**

4/1. *Financial regularity audit on the legality of the 2019–2020 financial management of the Magyar Szocialista Párt (Hungarian Socialist Party)*

4/2. *Financial regularity audit on the legality of the 2019–2020 financial management of the Jobbik Magyarországért Mozgalom (Movement for a Better Hungary)*

4/3. *Financial regularity audit on the legality of the 2019–2020 financial management of the Lehet Más a Politika LMP Party (Politics Can Be Different)*

4/4. *Financial regularity audit on the legality of the 2019–2020 financial management of the Párbeszéd Magyarországért Párt (Dialogue for Hungary Party)*

4/5. *Financial regularity audit on the legality of the 2019–2020 financial management of the Demokratikus Koalíció (Democratic Coalition)*

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

**Justification of the audit and expected results:** Based on Article 5 (11) a) of Act LXVI of 2011 on the State Audit Office of Hungary and Article 10 (1) of Act XXXIII of 1989 on the operation and financial management of political parties, the SAO is authorized to audit the legality of the financial management of political parties. Based on its legal obligation the SAO audits the financial management of the political parties receiving regular funds from the central budget every two years. The scope of the audit may extend to the regularity of additional material areas based on risk indicators and risk assessments up to the date of commencing the audit, taking into account the relevant legal requirements and the public methodology disclosed by the SAO.

Presenting the regularity of financial management and the volume of the utilised public funds may help the society to 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 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 sanctions to be applied for violating statutory provisions. A further outcome of the audit involves the assessment of how the warnings from previous SAO audits had been addressed.

**Type of the audit:** regularity audit

**FINANCIAL REGULARITY AUDIT ON THE LEGALITY OF THE 2019–2020 FINANCIAL MANAGEMENT OF PARTY FOUNDATIONS RECEIVING BUDGET SUPPORT**

*5/1. Financial regularity audit on the legality of the 2019–2020 financial management of the Táncsics Mihály Alapítvány (Táncsics Mihály Foundation)*

*5/2. Financial regularity audit on the legality of the 2019–2020 financial management of the Jobbik Magyarországért Alapítvány (Movement for a Better Hungary Foundation)*

*5/3. Financial regularity audit on the legality of the 2019–2020 financial management of the Ökopolisz Alapítvány (Ecopolice Foundation)*

*5/4. Financial regularity audit on the legality of the 2019–2020 financial management of the Megújuló Magyarországért Alapítvány (Progressive Hungary Foundation)*

*5/5. Financial regularity audit on the legality of the 2019–2020 financial management of the Új Köztársaság Alapítvány (Foundation for a New Republic)*

**Objective of the audit:** to assess the legality of the financial management of party foundations and compliance of the annual accounting reports and annual activity reports with the legal requirements; compliance with the relevant statutory provisions and internal regulations in the course of bookkeeping and financial management. Furthermore, to assess whether the audited entity implemented the tasks specified in the action plan drawn up in accordance with the findings requiring action in the previous SAO report.

**Justification of the audit and expected results:** The value-based and proper use of public funds and their transparency is a social requirement that can be realised by auditing the funds allocated from the central budget. Based on Article (4) of Act XLVII of 2003 on scientific, educational and research foundations supporting the operation of political parties, the SAO is authorized to conduct audits as to the legality of the financial management of foundations, and in accordance with the provisions of the SAO Act, it is authorized to conduct follow-up audits to assess the implementation of the action plans drawn up in accordance with the findings of previous audit reports. Based on its legal obligation the SAO audits the financial management of the party foundations receiving funds from the central budget every two years.

By presenting the regularity of financial management the audits may help the society to form an objective picture about the operation of the party foundations. The audit findings, conclusions and proposals may encourage legislators to implement concrete measures in order to change the regulations relating to the financing of party foundations, making them more transparent and controllable. The identification of any deficiencies and irregularities at the audited entities and the findings determined in connection with them may reduce the risks of irregular operation and promote the proper financial management of party foundations. By demonstrating the regularity of financial management the audits contribute to the attainment of the strategic goals of the SAO through value creation.

**Topic No.: 6**

**Type of the audit: regularity audit**

**AUDIT OF CAMPAIGN FUNDS**

**Regularity audit on the utilisation of funds spent on by-election campaigns**

**Objective of the audit:** to establish whether the individual candidates securing mandates in the by-elections and their nominating entities, and those unable to secure mandates but audited at the request of other candidates or nominating entities complied with the provisions of Act LXXXVII of 2013 on the transparency of campaign costs related to the election of members of the National Assembly (Campaign Finance Transparency Act). Also, whether the political parties acting as nominating entities fulfilled the requirements of Article 4 of Act XXXIII of 1989 on the operation and financial management of political parties (Political Parties Act) in respect of financing election campaign activities

**Justification of the audit and expected results:** The SAO is legally required to audit the utilisation of government and other funds spent on election campaign activities.

As stipulated in Article 8/B. (1) of the Campaign Finance Transparency Act, within one year from the election the SAO is to conduct an audit, ex officio, at the Treasury, or if necessary at the candidate concerning the use of budget support as per Article 1 with respect to the candidates securing mandates in the National Assembly. Furthermore, pursuant to Article 9 (2) of the Campaign Finance Transparency Act the SAO is to audit the use of government and other funds defined by the Political Parties Act spent on election with respect to the candidates securing mandates in the National Assembly and their nominating entities ex officio, and with respect to additional candidates and nominating entities at the request of other candidates or nominating entities.

The findings of the audit provide an objective picture for the society whether the individual candidates securing mandates in the by-elections and their nominating entities, and those unable to secure mandates but audited upon request of other candidates or nominating entities utilised the central funds for election campaigns in a regular manner, fulfilling the relevant statutory requirements. The audit is further justified by the need to ensure the legal control of funds for by-election campaigns and to enforce sanctions subject to violation of the legally specified restrictions.

**II.**

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



**Type of the audit:** regularity audit

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

**Objective of the audit:** to reveal whether the political parties not receiving regular central budget support have complied with their obligation to prepare and disclose financial statements as set forth in Article 9 (1) of Act XXXIII of 1989 on the Operation and Financial Management of Political Parties (Political Parties Act).

**Justification of the audit and expected results:** Based on Article 5 (11) a) of Act LXVI of 2011 on the State Audit Office of Hungary, and Article 10 (1) of the Political Parties Act, the State Audit Office is authorized to conduct audits on the legality of the financial management of political parties. The SAO performed audits as to the legality of the financial management of the political parties not receiving central budget support in former years as well. The majority of the political parties in Hungary are not entitled to regular central budget support due to failure 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 auditing political parties without central budget support. Consequently, the significance of the audit is justified not by the magnitude of the financial management of the audited political parties, but rather by a safeguard deriving from the rule of law requiring that audits be carried out on the legality of the financial management of every political party.





**III.**

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



**Type of the audit: Compliance and performance audit**

**AUDIT OF OPERATION AND FINANCIAL MANAGEMENT OF REGIONAL DEVELOPMENT COUNCILS**

**Objective of the audit:** to evaluate whether the regulation of the management of the work organisations of regional development councils, the performance of reporting obligations, the establishment and the operation of the internal control system, and the enforcement of effectiveness requirements in the operation of regional development councils were ensured.

**Justification of the audit and expected results:** The objective of regional development is to implement regional developments independently of the location of the given area, to promote social and economic growth and to establish the conditions of sustainable growth. The audit has a special social relevance, as the operation of the regional development councils facilitates the enforcement of public interest, the harmonization of regional and justified private interests, as well as the development and protection of natural, landscape and built values.

Another reason for this audit is the fact that regional development councils set up for the performance of settlement development tasks use public funds received from the central budget, too, for their operation and the implementation of the developments. The information on the evaluation of the operation of regional development councils, the management of their work organisations and their internal control systems allow society to get an objective picture about the regularity of the management of these organisations, the existence of the conditions of using public funds, and the results of the operation of regional councils. Audits support the transparency and the accountability of the use of public funds in this special area, too. In the course of this audit, it is possible to determine which areas should be strengthened to facilitate the alignment with territorial ratios in the development activities of the state.

**Topic No.: 9**

**Type of the audit: compliance audit**

### **AUDIT OF NUCLEAR SECURITY**

**Objective of the audit:** to audit the regulation of audit tasks affecting nuclear facilities and radioactive waste repositories. In addition, the audit will evaluate the regularity of the management of the Central Nuclear Financial Fund, to find out whether the governing, the regulation and the control systems of organisations involved in the management and the use of the Fund ensured the proper use of allocated funds according to the objectives. The SAO also reviews whether measures taken on the basis of the findings of earlier audits improved public finances.

**Justification of the audit and expected results:** The role of nuclear energy is of key importance for Hungary, as almost 50% of its electric energy requirements are covered by nuclear energy. Climate protection and the uncertainties on international energy markets also support the further development of this resource. Apart from the production of electric energy, nuclear energy plays an important role in Hungary in a number of areas of medicine, agriculture, as well as education and scientific research, too, and plays an active role in our everyday life. The impacts of using nuclear energy are continuously monitored and evaluated by the nuclear energy authorities and the ministry responsible for this sector.

The audit by the SAO contributes to the development and the harmonization of regulations. In the course of the audit, the SAO evaluates the regulation of the institution system performing official tasks, and whether the funds allocated to the creation and maintenance of nuclear security were used properly and according to the objectives by the organisations involved in the management and the use of the Fund. The audit may provide information to the society, legislators and responsible authorities on the domestic status of the auditing of nuclear facilities, and highlights the areas that need attention to be able to perform the tasks in this area in a more regular and efficient way.

As the “auditor of auditors”, the SAO may see its evidence-based evaluation be utilised at multiple levels, as its findings may be used directly in the activities of auditors.

**Type of the audit: compliance and performance audit**

**AUDIT OF CONTROLLING ACTIVITIES OF ORGANISATIONS CONTROLLING DOMESTIC ELECTRONIC TRADE**

**Objective of the audit:** to evaluate whether the organisations involved in electronic trade established the conditions of controlling internet trading, whether the implementation of audits was regulated and effective, and whether it contributed to the collection of taxes and duties related to internet trading.

**Justification of the audit and expected results:** The dynamic growth seen in the volume of electronic trade over the past years has an impact on economic development, and the increase in retail consumption and possible improvements in the profitability of companies increase the incomes of the budget, too. The domestic spread of electronic trade in Hungary is illustrated by the fact that the ratio of people buying products on the internet increased from 18% in 2010 to 41% in 2018, and the turnover of package sending and internet business types reached HUF 543.2 billion in 2018.

Since 2020, the impacts of the coronavirus epidemic have further increased trade on the internet, as more and more people prefer the safer electronic shopping. In the past five years, “e-commerce” has become the fastest growing industry. In parallel with that, the tasks of organisations controlling the trading activities on the internet have also increased, and have been in the focus of public attention.

Audit findings may facilitate the regular and transparent performance of the tasks of controlling organisations, the effectivity of audits, the strengthening of customers’ satisfaction and trust in e-commerce, and thus the widest possible realisation of incomes due to the central budget from internet trading.

In addition, these audits may highlight the domestic regulatory issues related to electronic trade that need further improvement. It also identifies areas not covered by audits, thus supporting the work of legislators and organisations affected by e-commerce, and may facilitate the enforcement of the interests of citizens. Based on the evaluation of audits, it is possible to determine the areas where certain aspects of operation need to be improved, how and in what direction should operating conditions be developed to be more effective, what should be done to strengthen legality and promote effective public tasks (improvement of law-abiding behaviour), and what tools need to be used to carry out these tasks.

## **Topic No.: 11**

**Type of the audit:** regularity audit

### **AUDIT OF MILITARY PROCUREMENTS**

#### **Audit of the controlling activities of the Defence Management Bureau related to military procurements**

**Objective of the audit:** to evaluate whether the internal control system of the Defence Management Bureau of the Ministry of Defence ensured the performance of audit tasks.

**Justification of the audit and expected results:** Pursuant to the Act on the State Audit Office, the SAO has a general competence in auditing the responsible management of public funds. When auditing the use of funds originating from the central budget, the SAO audits organisations operating from the central budget.

Meeting the obligations related to the NATO-membership, Hungary has to spend a significant and increasing amount of public funds on defence expenses, on the renewal of assets required for defence tasks and on the extension of the infrastructure.

The Zrínyi 2026 Defence and Military Development Programme was accepted for this purpose, and it is the largest and most comprehensive defence programme of the past twenty-five years. The primary objective of the programme is to equip the army with up-to-date equipment and to renew and purchase the necessary technical assets. In the period up to 2026, the amount to be spent on the development of the Hungarian Defence Forces will exceed HUF 3500 billion according to the programme.

Presently, the programme is in the middle of its term of implementation. Considering the fact that defence organisations' procurement demands and their releases from procurement bans are controlled by the Defence Management Bureau of the Ministry of Defence, it is reasonable for the SAO to evaluate how the organisation that performs the first line of defense over military procurements prepared for this controlling task that affects the use of high amounts of public funds, and whether the individual pillars of this organisation's control system provide the conditions of performing the auditing tasks.

As the "auditor of auditors", the SAO may see the results of its work be utilised at multiple levels, as the results of its evaluation may be used directly in the controlling activities of the Defence Management Bureau.

**Type of the audit: compliance audit**

**AUDIT OF DATA AND INFORMATION PUBLISHED BY THE HUNGARIAN STATE TREASURY AND THE ACTIVITIES RELATED TO THE MANAGEMENT OF REPORTS**

**Objective of the audit:** to find out whether legal regulations, the internal control system of the Hungarian State Treasury and the audits conducted by it ensure the reliability of data it is obliged to publish, regarding the data of reports and the debts of organisations belonging to the central subsystem of the central budget.

**Justification of the audit and expected results:** The Fundamental Law of Hungary stipulates that everyone shall have the right to access and disseminate data of public interest. It is a legitimate expectation among the users of information to have reliable data. The Hungarian State Treasury publishes data on the operation of the subsystems of the central budget and on the management of finances and assets with monthly, quarterly and annual frequency, and about the expired debts of budgetary institutions belonging to the central subsystem of the central budget with monthly frequency. The data published provide information on the management of the subsystems of the central budget, and the analyses and studies produced on the basis of such data may contribute to economic policy measures, too. This is why it is of special importance to audit the control processes used for the publication of data.

In this audit, the SAO evaluates whether the establishment and the operation of the internal control system of the Hungarian State Treasury contributes to the reliable publication of data, and whether the Hungarian State Treasury conducts any audit about the true and reliable nature of data included in the data supplies of organisations belonging to the central and local government subsystems of the central budget, and whether the data disclosed are published in a controlled process. With its audit findings, the SAO may contribute to the provision of real and authentic information to social and economic players. The evaluation of the audit may explain how the quality of preparations for better state and government decisions may be improved by collecting and processing relevant data; how the transparency of data of public interest may promote real evaluation with the financial processes of the state to enforce the wide-ranging interests of citizens.



## Topic No.: 13

**Type of the audit:** compliance and performance audit

### **AUDIT OF THE SYSTEM OF DATA COLLECTION AND DATA PROCESSING**

**Objective of the audit:** to evaluate whether the characteristics of the statistical data of audited organisations contribute to the “well-managed” state.

**Justification of the audit and expected results:** The official statistical activities of the members of the Official Statistical Service receiving the administrative data registered or collected by organisations performing public tasks are different, from the aspect of the volume of data collected, the scope and item number of data providers and the methods of data collection, too. The accuracy and reliability of statistical data represent basic effectivity factors. The higher and the more diverse the item number of data providers is, the more difficult it is to collect/process data, and to ensure the accuracy and reliability of statistical data. Digitalisation makes data protection more and more important.

The audit may reveal whether statistical activities contributed to the provision of real and authentic information of proper quality to economic players, to the enforcement of quality principles, and to the achievement of relevant strategic objectives. The evaluation of the audit may reveal whether statistical activities at the audited organisations (in particular data transfer and data processing) ensured the reliability of transferred/received administrative data. In addition, does the increased use of secondary data sources, in particular administrative data sources contribute to the effectivity of statistical activities. Based on the evaluation of the audit, the following questions may be answered: in which areas could we make the use of the tools of digitalisation more effective in the extension of social well-being; how could the increase in national income be accelerated by using the existing assets in a more intensive way; in which areas could the accelerating development of data industry contribute to the appearance of extra national income in a wider spectrum of society.

**Type of the audit:** performance audit

### **AUDIT OF MEASURES TAKEN FOR THE DEVELOPMENT OF THE DIGITAL STATE**

**Objective of the audit:** to assess whether the measures taken to establish the digital state successfully contributed to the implementation of the Government's objectives identified in the infocommunication strategy. In addition, to determine whether digital public services and e-administration were efficient enough in supporting the population (businesses) in their administrative tasks, and contributed to the improvement of their quality of life.

**Justification of the audit and expected results:** The National Infocommunication Strategy determined the objectives to be reached in the area of the digital state for 2014-2020. The backtesting of the implementation of the objectives set in the strategy is justified by the fact that on the basis of the data published by the European Commission in 2020 (DESI index), Hungary is the 21st among the Member States, and the indicators measuring the development of the digital economy and society are presently below the average values of the Union.

The audit may reveal the direction of the implementation of the strategic objectives aimed at improving digital competitiveness, whether the assets assigned to the objectives of the development of the digital state were proper, whether the measures taken ensured the realisation of the indicators related to the pillar of the digital state, whether the Government's intervention is required on the basis of possible deficiencies detected in the implementation of the strategic objectives (in the effectiveness of the measures). Another reason supporting the audit is that - considering the infocommunication measures introduced because of the COVID-19 epidemic - government measures taken in the field of digitalisation are of public interest among the affected parties (population, businesses). The complexity and the diversity of the issue raises the need for the SAO to separately evaluate digitalisation measures implemented in various public services, too, The audit also assesses how the digitalisation completed in the area of public services contributes to the higher standards of administration for the population / companies.

**Topic No.: 15**

**Type of the audit: performance audit**

**AUDIT OF THE EFFECTIVITY OF THE USE OF FUNDS PROVIDED FOR RE-  
SEARCH AND DEVELOPMENT AND INNOVATION**

**Objective of the audit:** to assess whether the measures planned and implemented under research and development and innovation contributed to the achievement of research and development and innovation strategic objectives, and to the national income. How the results of research and development and innovation were established, measured and evaluated. Did the reporting system ensure the availability of information for the implementation of the strategy.

**Justification of the audit and expected results:** Research and development and innovation have special macroeconomic importance, they significantly contribute to economic development and are of high importance for the international competitiveness of the country, too. The most important factor of the R&D&I performance of a country is a well-balanced innovation system that properly combines public and private investments, encourages the co-operation of companies with each other and the representatives of the scientific world for the purpose of developments, and as a precondition to all that, facilitates high-standard education and research. The effectivity of higher education and the transfer of knowledge with short-term and long-term effects are all based on high-level and extensive research activities. The funds spent on research and development and innovation are investments into the future of companies and the country, therefore the current governments are always responsible for creating conditions that encourage companies to do research and development and innovation. The development of sciences contributes to the improvement of society's standard of living, therefore the population shows a keen interest in it.

Satisfying the requirements of the European Union, the Hungarian Government has defined the national commitments to be achieved by 2020. Considering the target date of domestic commitments, the audit may highlight the results of the objectives set in research and development and innovation strategies and the related measures, and may point out issues which need to be improved and modified so that the objectives could be achieved in a more efficient way. It is of special importance to make sure that the use of public funds spent on research and development and innovation activities brings tangible results - the results of the research and development process should appear in all processes of knowledge transfer and education and in the economy, both in the sale and exports of innovative products, and in employment. Ultimately, these results should contribute to the development of the Hungarian economy and the improvement of its competitiveness.

Hungary has long-established traditions in the area of scientific research, which is proved by the professional results in various disciplines and the diverse international relations. Over the past few years, the Hungarian R&D&I system went through significant changes, and Hungary made significant progress in strengthening the national scientific and innovation performance, and in making sure that the results of such activities can be detected in the economic performance of the country. The findings of the audit may support the work of policy-makers in the area of research and development and innovation.

**Type of the audit:** compliance and performance audit

**AUDIT OF LOCAL GOVERNMENT ACTIVITIES RELATED TO LOCAL BUSINESS TAX**

**Objective of the audit:** to assess whether the tax authorities of local governments carried out their tasks related to local business tax properly and effectively.

**Justification of the audit and expected results:** Local governments are essential elements of democracy. The fundamental task of local governments is to ensure local public services to the population. The performance of this task adjusted to local conditions and requirements makes it imperative to establish the independent financial management of local governments, and one of the tools for this is the system of local taxes. Pursuant to Section 5 (8) of the SAO Act, the SAO examines the taxation activities of local governments.

The local business tax is a significant source of income for the local government subsystem, and for some local governments, it makes up the majority of the incomes, therefore the taxation activities of local governments are of special importance. 90% of local governments have introduced the local business tax. The primary objective of the SAO audit regarding local business tax is to determine whether local government tax authorities carried out their taxation tasks in the proper way.

With its assessment based on audit evidence, the SAO may contribute to the legislative work of the Parliament and to the strengthening of the practice of good governance. By exploring possible faults in meeting the regulations and potential risks, the audit may contribute to the improvement of the law-abiding behaviour of local governments. As a result of the assessment of the audit, it may be possible to identify the direction of progress, from the aspect of strengthening a more effective local tax system.

## **Topic No.: 17**

**Type of the audit: compliance and performance audit**

### **AUDITING THE ACTIVITIES OF THE NATIONAL TAX AND CUSTOMS ADMINISTRATION RELATED TO THE SMALL BUSINESS TAX AND THE SMALL TAXPAYERS ITEMISED LUMP SUM TAX AND OTHER TASKS**

**Objective of the audit:** to assess whether certain activities of the tax authority (NAV) regarding small taxes (KATA or small taxpayers itemised lump sum tax and KIVA or small business tax) (related to reporting, tax returns, tax audits, arrears management (tax collection), bad debts, termination of taxable entity status, management of complaints and reports) were properly regulated, and to determine the effectivity of performing the key tasks. The audit covers the evaluation of the establishment and operation of internal controls that ensure the proper performance of tasks, and the performance of other tasks of the tax authority.

**Justification of the audit and expected results:** One of the tasks of the SAO stipulated by the law is the auditing of the taxation activities of the national tax authority. In 2012, in order to simplify the taxation of small- and medium-sized enterprises, the Parliament introduced two completely new any simple types of taxes, that can be selected by the affected businesses: the small taxpayers itemised lump sum tax (KATA) and the small business tax (KIVA). Since their introduction in 2012, the small business taxes have become available in an increasingly wide scope, and more and more businesses chose these two types of tax, as a result of which the revenues of the central budget from KATA and KIVA continuously increased from 2013 to 2019. As of 2021, the conditions of small business taxes have been extended, and this fact confirms the need for the audit. In relation to the tasks of the tax authority, the SAO - in the course of auditing the financial management of the central budget - may audit the operation of all budgetary institutions of the tax authority, involved in either taxation, or other tasks. The audits related to the tasks of the tax authority are carried out by the SAO according to a systematic plan, annually, attempting to cover the fields of activities of the tax authority as much as possible. So far, the SAO has not carried out an audit regarding the above mentioned activities of the tax authority, so it is especially important to assess those.

With its assessment based on audit evidence, the SAO may contribute to the legislative work of the Parliament and to the strengthening of the practice of good governance.

**Type of the audit: compliance audit**

### **AUDIT OF THE SYSTEM OF COPYRIGHTS**

**Audit of the activities of the Hungarian Intellectual Property Office and the accountability and the transparency of the organizations that manage copyrights**

**Objective of the audit:** to assess whether the internal control environment of the HIPO satisfied the legal regulations. In the course of the audit we assess whether the task performance and the supervisory activities of the HIPO related to the managers of rights was according to the rules, and whether the definition and the settlement of incomes due to the HIPO (administration service fees, supervisory fees, fines, default interests) satisfied the legal regulations. Have they established performance targets and performance requirements that can be measured and monitored. We also assess whether the organizations managing the rights are accountable and transparent.

**Justification of the audit and expected results:** The performance of tasks and supervisory activities by the HIPO in relation to joint right managers and independent right managers contributes to the protection of copyrights as stipulated by the law. The activities of the HIPO with the joint right managing organizations and the independent right managing organizations include the tasks related to the supervision, registration and the preparations for the approval of the rates of representative joint right managers, as well as the auditing of these in the case of the right managing organizations.

In the course of the audit, it is possible to assess whether the HIPO performs its tasks in a regularly established control environment, and whether the organizations managing the rights are accountable and transparent. Do the task performance and the activities of the HIPO really contribute to the protection of copyrights as stipulated by the law. In the course of the audit, the SAO may get an insight into the operation and management of right managers, too. The audit may reveal the shortages related to the record-keeping and supervision of joint right managing organizations and independent right managing organizations, to the approval of the rates of representative joint right managing organizations, and to the implementation of these at the right managing organizations, and thus the audit may contribute to the improved quality of task performance. The definition of performance requirements may lay the foundations for the conducting of performance audits at the HIPO.

**Topic No.: 19**

**Type of the audit: compliance audit**

### **MONITORING TYPE AUDIT OF PUBLIC BODIES**

**Objective of the audit:** to assess whether the public body ensured the basic conditions of the regular, transparent and accountable use of funds provided to it for the performance of its tasks, and whether it regulated its operation and financial management to this end. Another objective of the audit is to support the establishment of minimum management control points.

**Justification of the audit and expected results:** The role of public bodies is of high importance in the professional areas of their operation, they carry out public tasks and carry out professional and ethic supervision over their members. They are required to manage the funds provided for the performance of public tasks and the membership fees paid by the mandatory members in a transparent and accountable way. The establishment of regulations is a basic condition of the regular and transparent management of the funds (provided for the performance of the tasks) by the public body, and of responsible accounting. The value-based and proper use of funds ensuring the performance of tasks and the establishment of transparency are social expectations, and the SAO wishes to contribute to that by auditing the basic operating and economic conditions.

The audit conducted by the SAO covers public bodies, either registered, or not by the National Office for the Judiciary, that are required to produce accounts according to the legal regulations.

The SAO intends to apply a monitoring type approach and support the improvement of the public finance situation. The SAO wishes to deploy the possibilities provided by digitalisation and give a picture about the basic regulations of public bodies, and contribute to the strengthening of the key areas of lawful operation as soon as possible. The monitoring type audit - focusing on the essential documents of the present status - strengthens the improvement of public finances with real-time evaluation and recommendations for the future.

**Type of the audit:** compliance and performance audit

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

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

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

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

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

With the audit findings, the SAO promotes the work of field-specific political decision-makers in the field of eco-conscious planning and energy labelling. As the “auditor of auditors”, the SAO may see its assessment be utilized at multiple levels as its findings are enforced by making the activity of the audit organizations, that is, the supervisory and consumer protection authorities more regular and efficient. With its evaluation based on audit evidence, the SAO contributes to the dissemination of information amongst the population in terms of the energy consumption of products and also to raising the energy awareness of the population.



## Topic No.: 21

**Type of the audit: compliance and performance audit**

### **AUDIT OF CERTAIN AUDIT ORGANIZATIONS SERVING AS THE SECOND LINE OF DEFENSE IN THE COURSE OF AUDITING LOCAL GOVERNMENTS**

**Objective of the audit:** to evaluate whether the task performance of the capital and country government offices related to the lawfulness supervision of local governments was regulated and complied with statutory provisions. In addition, to conduct a performance audit to see whether the goals related to the performance of tasks have been determined and what is indicated by the reports on their fulfilment and the status of the effectivity of the supervisory activity.

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

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

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

With its assessment based on audit evidence, the SAO may identify "good practices", too, which may be presented to a wider range of the affected parties in its consultancy function, contributing to the regulated, transparent, well-balanced and sustainable operation of the budgetary system.

**Type of the audit:** compliance and performance audit

## THE AUDIT OF WASTE MANAGEMENT

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

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

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

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

The State Audit Office conducts the audit as part of an international audit.

**Topic No.: 23**

**Type of the audit: compliance audit**

### **FOLLOW-UP AUDIT**

**(third phase)**

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

**Justification of the audit and expected results:** Pursuant to Section 1 of Article 33 (1) 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, 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 in the relevant SAO report, have been carried out by the designated persons.

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

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

The SAO's risk assessment-based follow-up audits include the organizations required to take actions related to the findings included in the reports prepared about the audits conducted in the case of business associations, foundations classified into the governmental sector or not belonging to the scope of the Government Decree on the Internal control system and on the internal audit of central public administration bodies (Bkr), as well as religious organizations.

The follow-up audit reveals whether the audited organization has implemented the measures formulated in the previous audit report for addressing deficiencies and managing risks, and to what extent the implementation of the measures contributed to the improvement of the situation of public funds. The follow-up audits provide feedback on the utilization of audit reports, and the assessment of the likely impact of the failure of implementation or partial implementation of measures on the endangerment of public funds and public property may result in additional measures.

**Type of the audit: compliance audit**

**FOLLOW-UP AUDIT, RISK ANALYSIS OF MANAGEMENT**

**(Fourth phase)**

**Objective of the audit:** a risk-based assessment of the issue whether the audited organizations completed and evaluated the measures defined in the action plan produced by the head of the organization, utilised the findings of the SAO report to eliminate the deficiencies and mitigate the risks, and whether the public finances improved as a whole and the audit findings of the SAO were utilised.

**Justification of the audit and expected results:** Pursuant to Section 1 of Article 33 (1) 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, and send it to the State Audit Office.

As a result of the implementation and evaluation of measures, risks related to the proper operation of the given area may be mitigated, but on the long term, risks will not be eliminated only by implementing the contents of the action plan. The only way is to integrate the measures into the operation of the audited organization, regularly update them, and take changes into consideration and manage them. In addition, until the implementation of the measures, there may be new risks to proper operation, the management of which is also of paramount importance to the audited entity.

The incomplete or late implementation or evaluation of tasks included in the action plans produced by the head of the audited organization, or the failure to do so carry risks in the respects of regularity and responsible management behaviour, which shows that the management of faults, deficiencies and irregularities revealed by the audits was not given enough 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.

**Topic No.: 25**

**Type of the audit: compliance audit**

**ON PUBLIC LIBRARY SUPPLIERS**

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

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

The audit, based on a new methodology of risk assessment, covers material areas of financial and asset management, and, by defining focal points, enables the identification of risks and the consideration of changes in areas of risk in comparison with the reports of previous audits. The scope of the audit may extend to the regularity of additional material areas based on risk indicators and risk assessments up to the date of commencing the audit, taking into account the relevant legal requirements and the public methodology disclosed by the SAO.

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

**Type of the audit:** compliance audit

**MONITORING TYPE AUDIT OF USERS OF PUBLIC FUNDS BELONGING TO THE CENTRAL AND LOCAL GOVERNMENT SUBSYSTEM OF THE CENTRAL BUDGET**

**Objective of the audit:** to assess whether organizations belonging to the central and local government subsystem of the central budget ensured the basic conditions of using public funds, observing the provisions stipulated in the Fundamental Law about managing public funds. The audit gives an overview of the status of basic public finance requirements regarding the organizations belonging to the central and local government subsystem.

**Justification of the audit and expected results:** Pursuant to the Fundamental Law, all organizations managing public funds shall give account in public of their management of public funds. Public funds and national assets shall be managed according to the principles of transparency and purity of public life. In order to improve the transparency of public finances, protect public assets and provide protection against corruption, it is justified to audit organizations belonging to the central subsystem of the central budget, local governments and local government institutions.

By conducting holistic analyses regarding the processes in the central and the local government subsystem of the central budget, and the targeted and efficient auditing of the selected organizations, the SAO performs its mission of acting as the supreme economic watchdog. In the course of its audits, the SAO may identify “good practices”, too, which may be presented to a wider range of the affected parties in its consultancy function, contributing to the regulated, transparent, well-balanced and sustainable operation of the budgetary system.

Using a monitoring type audit and covering the majority of the central and local government subsystem, the SAO supports the improvement of public finances. Monitoring type audits focus on the key documents of the present status in certain typical and essential areas, evaluate these in real time along key considerations, make recommendations for the future, and thus improve the public financing position of the audited party, the regularity of the management of its assets and the transparency of the organizations, and point out the key deficiencies in the establishment of integrity controls. This auditing approach may - apart from the efficient use of funds - significantly increase the scope of audits, and it is possible to evaluate previously not audited entities that use public funds and public assets. Monitoring type audits assist in the preparations for subsequent audits, too, contribute to making the processes regular in good time, thus the SAO supports the establishment of management control points and the correction of detected faults in the shortest possible time.

**Topic No.: 26/2**

**Type of the audit: compliance audit**

**RISK BASED AUDIT OF USERS OF PUBLIC FUNDS BELONGING TO THE CENTRAL AND LOCAL GOVERNMENT SUBSYSTEM OF THE CENTRAL BUDGET**

**Objective of the audit:** to identify and evaluate future risks on the basis of the assessment of past processes and documents regarding the financial management and integrity of organizations managing public funds and belonging to the central and local government subsystem of the central budget, as well as the past processes of preserving national assets.

**Justification of the audit and expected results:** Pursuant to the Fundamental Law, all organizations managing public funds shall give account in public of their management of public funds. Public funds and national assets shall be managed according to the principles of transparency and purity of public life. In order to improve the transparency of public finances and protect public assets, it is justified to audit organizations belonging to the central subsystem of the central budget, and local governments and local government institutions.

By identifying the risks in the central and local government subsystem of the central budget, and auditing the selected organizations in a targeted and efficient way, the SAO performs its mission of acting as the supreme economic watchdog. Utilising its legal authorisation, the SAO audits the budgetary organizations so that it could support the proper management and operation of the audited organizations with its assessment.

Using a risk-based audit approach and covering a wide scope of the central and local government subsystem, the SAO supports the improvement of public finances with its evaluations on the basis of the same characteristics. The risk-based audit covers the key areas of the management of economic associations, and defines focal points to facilitate the identification of risks, as well as to assess the changes in areas exposed to risks, compared to the risks indicated by previous audits. Risk-based audits are related to the past, but highlight risks that may occur in the future, and that may in certain cases call for further detailed audits at the individual organizations.

**Type of the audit:** compliance and performance audit

### **AUDIT OF USERS OF PUBLIC FUNDS BELONGING TO THE CENTRAL AND LOCAL GOVERNMENT SUBSYSTEM OF THE CENTRAL BUDGET**

**Objective of the audit:** to assess whether an organization managing public funds and belonging to the central and local government subsystem of the central budget operates in a way that it can be called to account. Has it enforced the public finances requirements of the Fundamental Law, including the protection and regular management of national assets, the purity of public life, responsible management and lawfulness, expediency and effectiveness. The regularity of areas identified on the basis of risk reports is also assessed.

**Justification of the audit and expected results:** The assets of the organization that belongs to the central and local government subsystem of the central budget are part of the national assets. The Fundamental Law stipulates that the management of assets serves public interests. Pursuant to the Fundamental Law, all organizations managing public funds shall give account in public of their management of public funds. Public funds and national assets shall be managed according to the principles of transparency and purity of public life. In order to improve the transparency of public finances, protect public assets and provide protection against corruption, it is justified to audit organizations belonging to the central subsystem of the central budget, local governments and local government institutions.

By conducting a holistic analysis regarding the processes in the central and the local government subsystem of the central budget, and auditing the organizations selected with risk analysis in a targeted way, the SAO performs its mission of acting as the supreme economic watchdog. By analysing the findings of individual audits and the audit results of individual periods, the SAO may draw legislators' attention to potential financial and regulatory tensions in the central and local government subsystem. In the course of its audits, the SAO may identify "good practices", too, which may be presented to a wider range of the affected parties in its consultancy function, contributing to the regulated, transparent, well-balanced and sustainable operation of the budgetary system.

For the sake of conducting efficient and practical audits, the audit covers modules selected on the basis of areas identified in the course of the preliminary risk analysis, that are typical of the audited party and considered important. The audit with the use of modules primarily focuses on the controlling of the operation, the protection against corruption, the financial processes, the management of assets, the protection of assets and the preservation of their values and condition, the preparations for construction projects implemented from the central budget, and the preparations at the organization for the implementation of the construction projects. The SAO assesses the efficiency of the economic area of the organization and measures managers' performance in the framework of performance audits. In the case of budgetary organizations performing management tasks at medium level, the SAO examines the exercising of management responsibilities and the implementation of responsible management.



**Topic No.: 27/1**

**Type of the audit: compliance audit**

**RISK BASED AUDIT OF USERS OF PUBLIC FUNDS BELONGING TO THE CENTRAL AND LOCAL GOVERNMENT SUBSYSTEM OF THE CENTRAL BUDGET  
(second phase)**

**Objective of the audit:** to identify and evaluate future risks on the basis of the assessment of past processes and key documents regarding the financial management and integrity of organizations managing public funds and belonging to the central and local government subsystem of the central budget, as well as the past processes of preserving national assets.

**Justification of the audit and expected results:** Pursuant to the Fundamental Law, all organizations managing public funds shall give account in public of their management of public funds. Public funds and national assets shall be managed according to the principles of transparency and purity of public life. In order to improve the transparency of public finances and protect public assets, it is justified to audit organizations belonging to the central subsystem of the central budget, and local governments and local government institutions.

By identifying the risks in the central and local government subsystem of the central budget, and auditing the selected organizations in a targeted way, the SAO performs its mission of acting as the supreme economic watchdog. Utilising its legal authorisation, the SAO audits the budgetary organizations so that it could support the proper management and operation of the audited organizations with its findings.

Using a risk-based audit approach and covering a wide scope of the central and local government subsystem, the SAO supports the improvement of public finances with its evaluations on the basis of the same characteristics. The risk-based audit focuses on the key areas of the management of economic associations, and defines focal points to facilitate the identification of risks. Risk-based audits are related to the past, but highlight risks that may occur in the future, and that may in certain cases call for further detailed audits at the individual organizations.

**Type of the audit: compliance and performance audit**

**AUDIT OF USERS OF PUBLIC FUNDS BELONGING TO THE CENTRAL AND LOCAL GOVERNMENT SUBSYSTEM OF THE CENTRAL BUDGET**

**(second phase)**

**Objective of the audit:** to assess whether an organization managing public funds and belonging to the central and local government subsystem of the central budget operates in a way that it can be called to account. Has it enforced the public finances requirements of the Fundamental Law, including the protection and regular management of national assets, the purity of public life, responsible management and lawfulness, expediency and effectiveness. The regularity of areas identified on the basis of risk reports is also assessed.

**Justification of the audit and expected results:** The assets of the organization that belongs to the central and local government subsystem of the central budget are part of the national assets. The Fundamental Law stipulates that the management of assets serves public interests. Pursuant to the Fundamental Law, all organizations managing public funds shall give account in public of their management of public funds. Public funds and national assets shall be managed according to the principles of transparency and purity of public life. In order to improve the transparency of public finances, protect public assets and provide protection against corruption, it is justified to audit organizations belonging to the central subsystem of the central budget, local governments and local government institutions.

By conducting a holistic analysis regarding the processes in the central and the local government subsystem of the central budget, and auditing the organizations selected with risk analysis in a targeted way, the SAO performs its mission of acting as the supreme economic watchdog. By analysing the findings of individual audits and the audit results of individual periods, the SAO may draw legislators' attention to potential financial and regulatory tensions in the central and local government subsystem. In the course of its audits, the SAO may identify "good practices", too, which may be presented to a wider range of the affected parties in its consultancy function, contributing to the regulated, transparent, well-balanced and sustainable operation of the budgetary system.

For the sake of conducting efficient and practical audits, the audit covers modules selected on the basis of areas identified in the course of the preliminary risk analysis, that are typical of the audited party and considered important. The audit with the use of modules primarily focuses on the controlling of the operation, the protection against corruption, the financial processes, the management of assets, the protection of assets and the preservation of their values and condition, the preparations for construction projects implemented from the central budget. In the case of budgetary organizations performing management tasks at medium level, the SAO examines the exercising of management responsibilities and the implementation of responsible management. The SAO assesses the efficiency of the economic area of the organization in the framework of performance audits.

**Topic No.: 28**

**Type of the audit: compliance audit**

**AUDITING OF LOCAL GOVERNMENTS ON THE BASIS OF FINANCIAL  
MONITORING  
(second phase)**

**Objective of the audit:** to facilitate the management of risks identified on the basis of the evaluation of data included in the central information system of local governments.

**Justification of the audit and expected results:** The objectives set in the strategy of the SAO include the evaluation of the financial and economic situation of local governments during their audits, the identification of their risks, and the selection of the locations of audits on the basis of an objective system of indicators.

For the performance of the audits, local governments selected for the audit will be grouped on the basis of the feasibility of the audit, the risks and the auditability. The strategic objectives of the SAO include the reduction of the number of on-site audits by using analysis-based sampling and auditing procedures of new approaches.

Based on the evaluation of the data of the annual budgetary reports, interim budgetary reports and balance sheet reports of local governments in the central information system, the monitoring system indicates which local governments and areas saw unfavourable economic processes or economic events and require the conducting of audits. The audit is conducted by using the monitoring reports produced about the local government subsystem and the data and information supplied by local governments in the form of certificates. As a result of this simplified audit method, the SAO is able to include more local governments in the assessment, where it did not conduct any audits before, and by using its capacities in the most efficient way, focusing on the risks, it is able to ensure the biggest possible coverage in the area of the local government subsystem.

With its audits, the SAO contributes to the regular and maintainable operation of the “well-managed state” and the regular and sustainable operation of local governments, as it points out the risky areas within the operation and financial management of local governments, and draws attention to their management.

**Type of the audit:** compliance audit

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

**(second phase)**

**Objective of the audit:** to assess the status of the performance of the tasks of the managers or proprietors of central budgetary institutions. In the framework of the audit, we evaluate the structure of integrity controls for the management of corruption risks link to the organization and whether the integrity approach has been applied.

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

In terms of auditing budgetary institutions, the SAO primarily focuses on organizations carrying out management or proprietary duties of key social importance. Through auditing the organizations 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. The SAO also points out whether the conditions of performance metering are provided in relation to the management and ownership activities.

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

**Topic No.: 30**

**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 the status of the establishment of budgetary chapters, managed appropriations and the operational and organizational frameworks of the institutions governing the chapters, and whether the financial management was implemented with due transparency and accountability.

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

The SAO audits the implementation of the annual budget act. It audits the financial management and operation of budgetary institutions amongst others for the purpose of managing the risks identified with the continuous assessment of the risks explored during the audit and the area in order to support the regular financial management of the audited entities with the findings of the audits and to promote the prevalence of the basic postulates set out in the Fundamental Law in the everyday operation of institutions with its recommendations. With its assessment, the SAO facilitates the responsible financial management of public funds by the auditees and, with the audits based on novel approaches, it contributes to 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: the internal control system, integrity, cash and property management, investments, chapter-managed appropriations and management.

**Type of the audit:** compliance audit

### **AUDIT OF NON-GOVERNMENTAL HUMAN SERVICE PROVIDERS**

**The monitoring type audit of the regulation 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**

**Objective of the audit:** to assess whether the operators of educational and social institutions outside of public finances have ensured the basic conditions of using the subsidies received from the central budget in regular, transparent and accountable way, by regulating the operation and the management.

**Justification of the audit and expected results:** Tasks performed by organisations carrying out public educational and social tasks outside of public finances affect a wide layer of society, therefore they attract the attention of the general public. In the annual budget acts, the state provides aids of significant amounts to non-governmental human service providers to the performance of their tasks.

The improvement of the transparency and regulation of public finances and the mitigation of identified risks call for the auditing of public funds provided to organisations performing public tasks outside of public finances.

In the course of the monitoring audit, the SAO focuses on the regulation of the management of the operators of human service providers outside of public finances. The real-time evaluation of certain key documents and the related recommendations for the future strengthen the improvement of the public finance status of the audited operator. By determining the focal points, it is possible to identify the key risks and deficiencies in the regulation of the management of the human service provider operators outside of public finances, and to manage these as soon as possible.

In the case of organisations performing public educational and social tasks outside of public finances, the audit facilitates the regular use of the budget support, and may increase the correct nature of social and economic decisions and strengthen public trust.

**Topic No.: 31/2**

**Type of the audit: compliance audit**

**RISK-BASED 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)**

**Objective of the audit:** to assess how the operators of non-governmental and non-municipal public educational and social institutions have ensured the basic conditions of using the subsidies received from the central budget in a regular, transparent and accountable way.

**Justification of the audit and expected results:** The annual budget acts provided significant amounts in the way of financial support for operators of non-governmental institutions performing social and public educational functions for the purpose of the performance of their public duties, subject to the conditions laid out in such acts. The amount of usable state subsidies as earmarked by the budget act amounted to a total of HUF 929 billion in the years 2017-2019. In 2013, substantial changes took place in the system of normative funding. The Parliament adopted Act CXC of 2011 on National Public Education, which significantly transformed the former funding system as of September 2013. Act III of 1993 on Social Governance and Social Benefits was also amended, which, amongst others, laid out the regulations related to acceptance into the funding system, effective as of January 1, 2012. The audit focuses on the changes that took place in the funding system and their impacts on performing public duties in terms of the organizations outside of public finances using budget support. With its assessment, it contributes 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 organizations on this field have not yet been audited by the State Audit Office of Hungary.

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

The SAO evaluates non-public human service providers in the framework of audits of risk-based approach, too. Risk-based audits give an objective picture about risky areas at the organizations, based on the evaluation of essential documents. The audits allow for both individual and grouped evaluations, and taking legal regulations and the public methodology announced by the SAO into consideration, the scope of the audit may be extended with the auditing of the regularity of other important areas on the basis of the risk indications and depending on risk assessment, until the start date of the audit.

**Type of the audit: compliance and performance audit**

### **AUDIT OF NATIONALLY OWNED BUSINESS ASSOCIATIONS**

**Objective of the audit:** to assess 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 the value, the protection and the compliant management of national assets. The SAO also audits how the person exercising ownership rights exercised its rights and whether it fulfilled its obligations.

**Justification of the audit and expected results:** Auditing nationally owned economic organizations 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 organizations. 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 organizations 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 organizations influencing the budget deficit can be identified and the mitigation of such risks becomes possible. The utilisation of the recommendations of the audit office formulated based on the findings may promote the elimination of existing deficiencies. By disclosing good practices, the State Audit Office of Hungary can contribute to the familiarisation and distribution of the solutions to be followed.

The audit is carried out based on the risk assessment of the organization, by taking into consideration the specific and substantial characteristics, via the module or modules selected for the audit. The highlighted subjects of audits carried out via modules:

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



- Risk jeopardizing the existence of business associations: evaluates whether the financial management of the business association was monitored in order to prevent insolvency and loss of assets..

**Topic No.: 32/2**

**Type of the audit: compliance and performance audit**

## **AUDIT OF NATIONALLY OWNED BUSINESS ASSOCIATIONS**

**(second phase)**

**Objective of the audit:** to assess 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 the value, the protection and the 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 organizations 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 organizations.

Our audits can explore whether the owners' supervision contributed to regular financial management and task performance. As a result of the audit, the risks of the organizations influencing the budget deficit can be identified and the mitigation of such risks becomes possible. The utilisation of the recommendations of the audit office formulated based on the findings may promote the elimination of existing deficiencies. By disclosing good practices, the State Audit Office of Hungary can contribute to the familiarisation and distribution of the solutions to be followed.

The audit is carried out based on the risk assessment of the organization, by taking into consideration the specific and substantial characteristics, via the module or modules selected for the audit. The highlighted subjects of audits carried out via modules:

- financial monitoring: evaluation of the the financial management and the sustainability of the operation of business associations, and the assessment of risks originating from the changes in commitments and their impacts on management.
- financial management: evaluates the financial balance and the financial processes, as well as the regularity of the accounting of revenues and expenditures
- significant investments: evaluates the preparation of investments performed with the use of funds from the central budget
- performance audit: evaluates the effectiveness of the economic area of the organization 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

**Type of the audit:** compliance audit

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

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

**Justification of the audit and expected results:** Over the past few years, the State Audit Office of Hungary also conducted an integrity survey amongst business association in public ownership, the results of which showed that there are quite significant differences between 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 organization 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 purity of public life.

Monitoring-based audit on the material areas of the integrity-based operation of business associations focusing on the material documents of the present stage, strengthening the establishment of integrity controls with real-time evaluation and recommendations for the future, thus improving public finances as soon as possible. With the help of the monitoring-based audit, the SAO can evaluate the integrity control/integrity-risk management system of business associations in municipal/state ownership in the case of a large number of auditees simultaneously.

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

**Topic No.: 33/2**

**Type of the audit: compliance audit**

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

**(second phase)**

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

**Justification of the audit and expected results:** Over the past few years, the State Audit Office of Hungary also conducted an integrity survey amongst business association in public ownership, the results of which showed that there are quite significant differences between 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 organization 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 purity of public life.

Monitoring-based audit on the material areas of the integrity-based operation of business associations focusing on the material documents of the present stage, strengthening the establishment of integrity controls with real-time evaluation and recommendations for the future, thus improving public finances as soon as possible. With the help of the monitoring-based audit, the SAO can evaluate the integrity control/integrity-risk management system of business associations in municipal/state ownership in the case of a large number of auditees simultaneously.

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

**Type of the audit: compliance audit**

**RISK-BASED AUDIT OF ASSETS OF NATIONALLY OWNED BUSINESS ASSOCIATIONS**

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

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

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 extend to the regularity of additional material areas based on risk indicators and risk assessments up to the date of commencing the audit, taking into account the relevant legal requirements and the public methodology disclosed by the SAO.

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

**Topic No.: 34/2**

**Type of the audit: compliance audit**

**RISK-BASED AUDIT OF ASSETS OF NATIONALLY OWNED BUSINESS  
ASSOCIATIONS  
(second phase)**

**Objective of the audit:** to assess whether the business associations had approved accounting reports, the exercise of proprietary rights ensured the compliant approval of accounting reports; whether the availability of reliable and authentic information on the company's assets, based on the company's accounting reports, is guaranteed, and to assess the regularity of issues identified as material on the basis of risk indicators, and to what extent they established measurable and monitorable performance targets and performance requirements..

**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 organizations.

The audit carried out based on material documents includes the existence of the approved accounting report, 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 extend to the regularity of additional material areas based on risk indicators and risk assessments up to the date of commencing the audit, taking into account the relevant legal requirements and the public methodology disclosed by the SAO.

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

**Type of the audit:** regularity audit

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

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

**Justification of the audit and expected results:** The Fundamental Law sets forth that public funds and national assets shall be managed according to the principles of transparency and the purity of public life. Organizations managing public funds shall be obliged to account for their management of public funds publicly. The State Audit Office of Hungary audits the use of funds received from state budget based on a legislative authorization. It is an objective of the SAO to contribute to the transparent use of public funds at entities outside of public finances, by performing the audit of budget supports and asset transfers granted to these organizations. The State Audit Office of Hungary, by fulfilling its obligation and strategic objective, audits the financial management of other organizations as per the Accounting Act.

The audit includes the other organizations as per Paragraph 3 of Section 4 of the Accounting Act whose financial management as well as obligation of reporting and bookkeeping is also laid out in other laws. The information gathered on the financial management of other organizations and the regularity of their use of public funds with the help of the audit contributes to allowing the society to gain an objective insight into the financial management of these organizations. The assessment of the audit supports the work of legislature in the course of regulating the operation and financial management of organizations. The recommendations formulated based on the deficiencies and discrepancies revealed as well as the good practices contribute to the more regular management framework of organizations, ensuring the transparent and accountable use of public funds.



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