

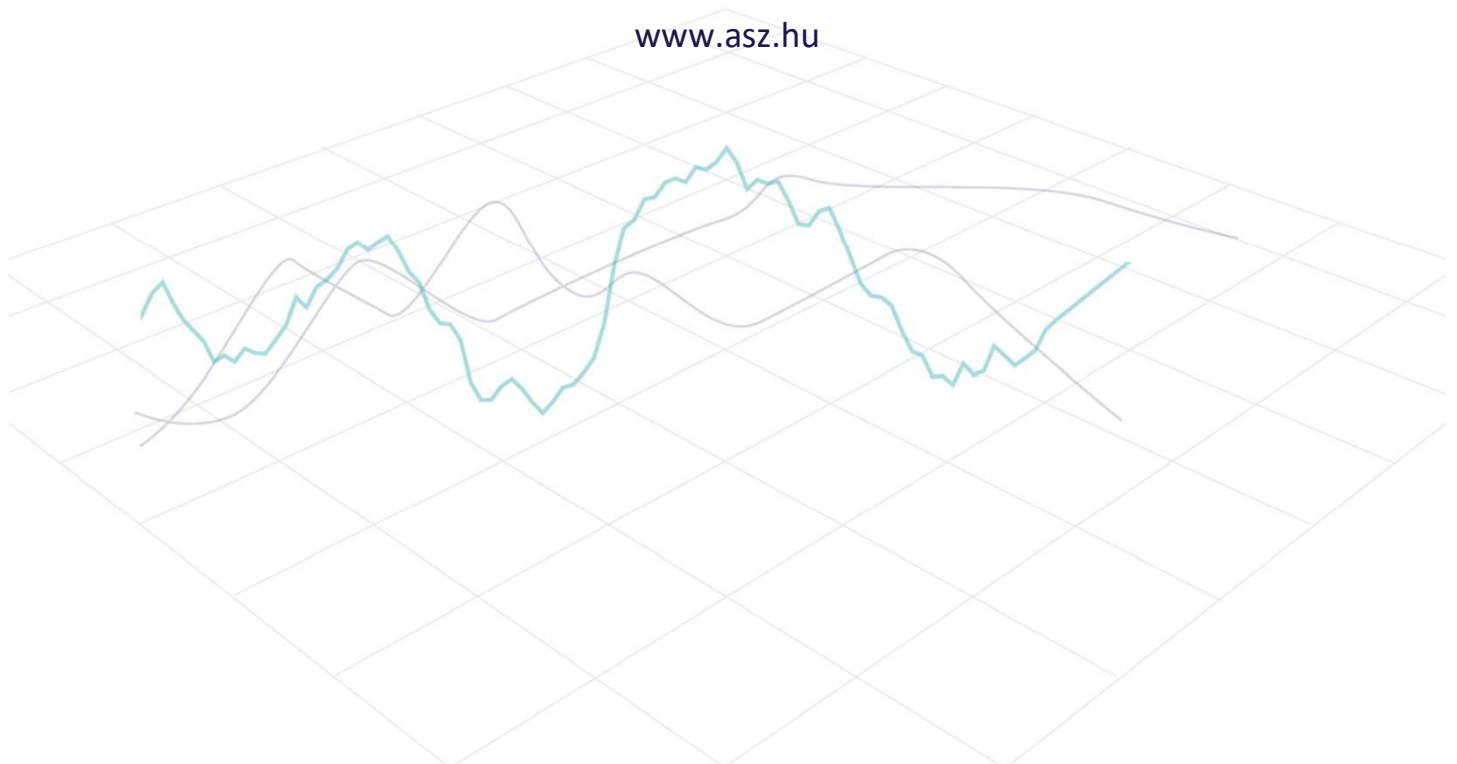


STATE AUDIT OFFICE OF
HUNGARY

AUDIT PLANNING MEMORANDUM

first half of 2022

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TV-0921-002/2021.

Approved by:
László Domokos
President

Budapest, December, 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.

Introduction

The State Audit Office of Hungary 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 ensure 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.

The audit plan of the State Audit Office for the first half of 2022 is structured according to three parts:

- 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 and locations selected on the basis of materiality, coverage and risk analysis.

When identifying topics from the aspect of materiality and during efforts preceding the selection of relevant audit locations, the State Audit Office assesses and evaluates inherent risks in each area, relying on its experience of auditing and analysis. In addition, it utilises the facts obtained and the information, indications and other documents submitted to it in the course of its ongoing audits, or in the planning of such audits. Since 2020, the principle of materiality has been applied as a new aspect, in addition to audit coverage to be achieved through assessing potential audit locations, as well as a focus on risks. Thus, the conditions for a more comprehensive assessment will be improved in the implementation of the statutory requirement to support good governance.

It is the mission of the State Audit Office to promote the transparency and orderliness of public finances through its value-creating audits, built on a solid professional foundation; to contribute to supporting the functioning of a well-governed state; to make the use of public funds more professional, transparent and effective through its incentives and advice; to contribute to the efficient functioning of institutions and systems providing public services for the common good; and as a result, to ensure that the performance of the State Audit Office has a long-term and measurable impact on the results of organizations using public funds and on the improvement of the sustainable public finance situation.

In order to fulfil this mission, and thanks to a Resolution by the National Assembly, the State Audit Office will conduct its audit- and analysis-related tasks and put further effort into its advisory activities in the coming period so as to help public service organizations comply

with regulations related to public funds, thereby supporting the orderly and efficient use thereof.

As a prerequisite for an efficient and high-quality task performance, the SAO improves its established auditing standards and methodologies by assessing its practical experience and the usefulness of audit findings, in compliance with the international methodological standards and guidances. For a transparent and accountable management of public funds and assets, in the first half of 2022 the SAO will perform its audits using compliance and performance auditing methods. The compliance audits will contribute to ensuring that the audited organizations and their activities comply with the relevant legal regulations and standards in all material respects, while through performance audits, the SAO contributes to the prevalence of the principle of effectiveness at audited organizations.

In the course of implementing its audits the SAO applies evidence-based approaches. In particular, it is constantly improving its document-based capabilities using the opportunities offered by digitalisation. This approach serves to ensure that audit findings are based on available and evidence-based documents generated during or before the audited period, reconstructing the facts for that 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 organization on the basis of a given audit programme.

The audits carried out on the basis of audit schemes with a risk-based monitoring audit approach significantly increased the audit coverage of certain areas in the second half of 2021, while reducing the workload of the audited organizations. In the light of positive experiences, these new audit approaches will continue to be used in the first half of 2022 as well.

The relevant legislation requires the SAO to carry out obligatory audit functions with a yearly or two-yearly frequency. Accordingly, in the first half of 2022, the SAO will start auditing *the final accounts prepared on the implementation of Hungary's central budget for 2021*, as a priority task. The SAO carries out its audits according to an audit model based on a methodology capable of covering the entire financial management of the general government supported by statistical methods.

In compliance with its legal obligation, the SAO provides *an opinion on the Central Budget Bill of 2023*, supporting the National Assembly in drafting and adopting a budget act that meets legal requirements.

Under a statutory mandate – on a biannual basis –, the SAO also audits the financial management of *political parties and foundations of political parties receiving support from the central budget*. Accordingly, the control of the legality of the financial management of political parties and foundations of political parties registered in Hungary will continue in order to enforce the guarantee requirement arising from the Hungarian rule of law, namely that the control of the legality of the financial management of all political parties must be ensured. In its audits, the SAO will highlight areas that should be regulated to further enhance the transparency of the financial management of political parties, and consequently the purity of public life, by passing this information on to legislators.

As part of the audits to be carried out pursuant to its legal obligation, the SAO will start auditing *activities related to the exercise of ownership rights over state assets* in 2022 again, by auditing the handling and financial management of assets belonging to the general government.

Started in the second half of 2021, the auditing of *the allocation of shared revenues of the Municipality of Budapest and district municipalities in 2021* will continue, together with the auditing of the regularity of establishing and accounting for expenses related to local taxation.

As a new task defined on the basis of a statutory mandate, the SAO must assess the legally defined scope of *non-governmental organizations engaged in activities capable of influencing public life*, along considerations of legality. As part of this responsibility, using its tools, the SAO will in the first half of 2022 provide an opportunity for the concerned non-governmental organizations to prepare for the SAO audit required by law that is relevant to them.

Pursuant to its legal obligation, the SAO regularly audits the non-core activities and financial management of the *Central Bank of Hungary* (MNB). As part of this audit, the SAO will assess the MNB's management, decision-making and control systems, the set-up of its financial management framework, its activities of supervising, controlling and regulating the financial intermediary system, and its activities carried out as resolution authority.

The implementation of additional audit tasks assigned to the SAO by law will continue with organization-specific audits on selected topics in the first half of 2022. These audits will cover several sub-sectors of the national budget as well as non-governmental organizations. In the case of organization-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.

Meeting its legal obligation, the SAO will continue to pay particular attention to the assessment of the functioning of the internal control system of public finances, responsible management behaviour and the accounting system of public finances. It will continue to audit local governments, central government bodies and state-owned enterprises. 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 the first half of the year, emphasis will be placed on auditing municipal companies and other organizations specified as other entities in the Accounting Act. In the case of central budgetary bodies, the auditing of middle governing bodies will continue, as part of which the auditing of management, financial management and asset management tasks will be performed. The SAO will continue to audit higher education institutions affected by a change of proprietor in 2021, as part of which it will assess whether the preservation and protection of national property necessary for high-quality tertiary education was ensured at such universities prior to the change of proprietor and whether its transfer took place in line with regulations.

As part of the audit of *municipalities*, the SAO will carry out the monitoring of data available in the central information system of the Hungarian State Treasury in relation to additional local governments, through which the SAO can evaluate local governments by grouping them. By performing inspections based on the evaluation of monitoring reports and exploring the risks affecting the financial balance of municipalities, the SAO contributes to ensuring the sustainability of the financial management and task performance of municipalities.

In 2022, the SAO will continue to carry out risk-based audits at designated municipalities and nationally owned companies. Risk-based audits allow the SAO to obtain – concerning a large group of auditees, based on the same characteristics and an evaluation of relevant documents according to essential aspects – an objective picture of the areas that may pose a risk to their financial management in future.

In the first half of 2022, the SAO will perform monitoring-based audits at additional target groups. Focusing on important documents of the current status and using some key criteria,

monitoring-based audits provide real-time assessments and recommendations relevant to the future, to support an improvement in the auditees' public funds situation. Any monitoring-based audit of companies with majority ownership of municipalities, non-public human service providers, foundations/public foundations, or sports associations, i.e. organizations using public funds and/or public assets will cover a large group or all of them, by focusing on a significant area and the basic documents related to that area. This audit approach allows the SAO to significantly increase audit coverage and assess previously unaudited users of public funds and public assets. By assessing a small number of selected relevant documents, the SAO is able to identify areas where basic operating or financial management conditions have not been established, and then to improve public finances by raising awareness of such areas. The methodological and digital improvements, in addition to decreasing the workload on audited entities, contribute to reducing the time required by audits and to increasing the effectiveness thereof.

The SAO will continue its *follow-up audits*, during which it is possible to follow up whether the heads of the organizations concerned have taken measures to eliminate errors and deficiencies found in their financial management of public funds and public assets, whether such measures have reduced the risk of irregularities in the operation of such organizations, and whether the public finance situation has improved in overall terms.

The auditing of *measures taken in the interest of developing a digital state* will continue, in the course of which 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 citizens (businesses) in managing their affairs and improving their quality of life.

As one of the audits started in the second half year of 2021, the audit of *the effectiveness of the utilisation of funds provided for research, development and innovation* will be carried out to find out how the measures planned and implemented in the framework of research, development and innovation have contributed to the achievement of the strategic goals of research, development and innovation, and to 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 area of responsibility, the SAO will continue the auditing of *activities of local governments related to local business tax and activities of the National Tax and Customs Administration related to the itemised tax on small enterprises and the small enterprise tax.*, which was started in the previous half-year.

In the first half of year 2022, the SAO will finish *the auditing of the copyright system*. As the auditor of auditors, the SAO will assess the task performance and supervisory activities of the Hungarian Intellectual Property Office relating to copyright organizations, as well as the accountability and transparency of these organizations. By conducting a performance audit, the SAO provides objective feedback on the effective functioning of the copyright system and on the progress made in implementing measures to protect intellectual property.

The SAO will continue auditing a number of specific topics started on the basis of its audit plan for the second half of 2021. These include the auditing of *the operation and financial management of regional development councils; nuclear safety; the auditing activities of organizations conducting audits of electronic commerce in Hungary; data and information published by the Hungarian State Treasury and its activities related to the management of reports; the system of data collection and data processing; and the auditing activities of the Defence Economic and Financial Office connected to military procurements*

In the first half of 2022, the SAO will audit a number of previously unaudited areas and organizations. As part of the *Audit of the prevalence of teleworking and working from home*, the SAO assesses how the measures introduced during the pandemic situation have supported the use of telework, and how they have contributed to the protection of the health of families, the effectiveness of the control of the pandemic and the protection of jobs and the economy.

As the “auditor of auditors”, the SAO will carry out the *Audit of Employment Supervision* to assess how the conditions and organizational framework for the audits of employment supervision have been developed by the organizations carrying out official audits. As part of its performance audits, the SAO will assess the effectiveness of the Employment Supervision Authority’s activities and their contribution to the objectives of whitening the economy, and how they have ensured the enforcement of basic labour law regulations.

The performance auditing of the *prevention tasks of disaster management* will be put into focus. As part of its audit, the SAO will assess how the task performance of organizations involved in prevention tasks in the disaster management system has contributed to increasing the country's security.

The *Audit of the protection of waters and the performance of water management tasks* represents a novel area in the SAO’s range of audits. The audit provides an assessment of certain areas of drinking water management required for the physical and mental health declared by the Fundamental Law of Hungary, and the implementation of the objectives of water management, including the assessment of the financial management of water utility companies and related official activities.

Auditing the proprietors of institutions providing care for the elderly will be in the scope of SAO’s activities in the first half of 2022. As part of the audit of *Public proprietors of institutions providing residential social care for the elderly*, the SAO will assess contributions made by the Directorate-General for Social Affairs and Child Protection to an improvement in the quality of social care provided by the institutions maintained and to their efficient task performance.

The auditing of *measures taken to develop the digital state* will be carried out in another priority area of services. The SAO will seek answers to the question of how digitalisation measures have contributed to improving the quality of public services in healthcare and thus the quality of life of the population.

The SAO will continue *the audit of providers of public library services and library services*. The purpose of the audit, which will start in the first half of 2022, is to form a picture of how these organizations have set performance targets, developed performance criteria, and measured and evaluated them when meeting the requirements of effectiveness and efficiency with respect to the utilisation of public funds and the protection of cultural assets registered in the collection of libraries.

As a matter of public interest, the SAO will assess – as a new audit topic – how measures planned and implemented in Hungary to achieve and maintain a good quality of life, as well as the measurement and evaluation of the results achieved, have contributed to a well-governed state.

The SAO supports the integrity-based use of public funds also by voluntary, updated self-tests downloadable from its website and extended with a new target group, through the completion of which the organizations can get objective information concerning the fields in respect of

which their financial management, control and regulation meet the provisions of legal regulations and the fields that should be improved. The SAO considers the mapping of the functioning of the integrity and internal control systems and asset management to be a priority area, which is a prerequisite for a 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.

Under its Resolution No. 17/2021. (VI. 16.), the National Assembly confirmed the SAO's advisory activities, as part of which SAO will continue to support audited organizations by presenting to them, and educating them on, any detected or potential irregularities and their essential characteristics, thus helping to improve the state of public finances as soon as possible. Accordingly, the SAO often provides advice to audited organizations early on in the audit process, ensuring that the heads of the audited organizations can demonstrate that they can act as responsible leaders and ensure that any identified deficiencies are remedied as soon as possible, thereby contributing to the protection and transparent management of public funds.

LIST OF SUBJECTS

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

1. *Final accounts of the 2021 Budget of Hungary --auditing the implementation of the Year 2021 Central Budget of Hungary*
2. *Opinion on the Year 2023 Central Budget – Opinion on the Bill on Hungary’s Year 2023 Central Budget*
3. *Audit of the legality of the 2020-2021 financial management of political parties receiving support from the Central Budget*
 - 3/1. *Audit of the legality of the 2020-2021 financial management of Fidesz-Magyar Polgári Szövetség (Fidesz - Hungarian Civic Alliance)*
 - 3/2. *Audit of the legality of the 2020-2021 financial management of Kereszténydemokrata Néppárt (Christian Democratic People’s Party)*
 - 3/3. *Audit of the legality of the 2020-2021 financial management of Momentum Mozgalom (Momentum Movement)*
 - 3/4. *Audit of the legality of the 2020-2021 financial management of Magyar Kétfarkú Kutya Párt (Hungarian Two-Tailed Dog Party)*
4. *Audit of the activities related to the exercise of ownership rights over state assets*
5. *Audit of non-governmental organizations engaged in activities capable of influencing public life*
6. *Review of the local government decree on the shared revenues of the Budapest Capital City Municipality and Budapest district municipalities in 2021 (ongoing task according to Audit Topic No. 1 of the Audit Plan for the second half of 2021)*
7. *Audit of the legality of the 2019-2020 financial management of political party foundations receiving support from the Central Budget (ongoing task according to Audit Topic No. 5 of the Audit Plan for the second half of 2021)*
 - 7/1. *Audit of the legality of the 2019-2020 financial management of Táncsics Mihály Alapítvány (Mihály Táncsics Foundation) (ongoing task according to Audit Topic No. 5/1 of the Audit Plan for the second half of 2021)*
 - 7/2. *Audit of the legality of the 2019-2020 financial management of Jobbik Magyarországért Alapítvány (Foundation for a Better Hungary) (ongoing task according to Audit Topic No. 5/2 of the Audit Plan for the second half of 2021.)*
 - 7/3. *Audit of the legality of the 2019-2020 financial management of Ökopolisz Alapítvány (Ökopolisz Foundation) (ongoing task according to Audit Topic No. 5/3 of the Audit Plan for the second half of 2021.)*
 - 7/4. *Audit of the legality of the 2019-2020 financial management of Megújuló Magyarországért Alapítvány (Progressive Hungary Foundation) (ongoing task according to Audit Topic No. 5/4 of the Audit Plan for the second half of 2021.)*
 - 7/5. *Audit of the legality of the 2019-2020 financial management of Új Köztársaságért Alapítvány (Foundation for a New Republic) (ongoing task according to Audit Topic No. 5/5 of the Audit Plan for the second half of 2021.)*

8. *Audit of the legality of the 2020-2021 financial management of political party foundations receiving support from the Central Budget*
 - 8/1. *Audit of the legality of the 2020-2021 financial management of Szövetség a Polgári Magyarorszáért Alapítvány (Foundation for a Civic Hungary)*
 - 8/2. *Audit of the legality of the 2020-2021 financial management of Barankovics István Alapítvány (István Barankovics Foundation)*
 - 8/3. *Audit of the legality of the 2020-2021 financial management of 'Indítsuk be Magyarországot Alapítvány' (Let's Get Hungary Started Foundation)*
 - 8/4. *Audit of the legality of the 2020-2021 financial management of Savköpő Menyét Alapítvány (Acid Spitting Weasel Foundation)*

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

9. *Regularity audit of the operation of the Magyar Nemzeti Bank (National Bank of Hungary)*

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

10. *Audit of the prevalence of telework and working from home*
11. *Audit of employment supervision*
12. *Audit of the prevention tasks of disaster management*
13. *Audit of the protection of waters and the performance of water management tasks - Audit of water utility services*
14. *Audit of public proprietors of institutions providing residential social care for the elderly*
15. *Assessment of measures taken for the development of the digital state – health care*
16. *Audit of providers of public library services and library services*
17. *Sustainability of a good quality life*
18. *Audit of the operation and financial management of regional development councils (ongoing task according to Audit Topic No. 8 of the Audit Plan for the second half of 2021)*
19. *Audit of nuclear security (ongoing task according to Audit Topic No. 9 of the Audit Plan for the second half of 2021)*
20. *Audit of the controlling activities of organizations controlling electronic trade in Hungary (ongoing task according to Audit Topic No. 10 of the Audit Plan for the second half of 2021)*
21. *Audit of military procurements – Audit of the controlling activities of the Defence Economic and Financial Office related to military procurements (ongoing task according to Audit Topic No. 11 of the Audit Plan for the second half of 2021)*

22. *Audit of data and information published by the Hungarian State Treasury and its activities related to the management of reports* (ongoing task according to Audit Topic No. 12 of the Audit Plan for the second half of 2021)
23. *Audit of the system of data collection and data processing* (ongoing task according to Audit Topic No. 13 of the Audit Plan for the second half of 2021)
24. *Audit of measures taken for the development of a Digital State* (ongoing task according to Audit Topic No. 14 of the Audit Plan for the second half of 2021)
25. *Audit of the effectiveness of the utilisation of funds provided for research, development and innovation* (ongoing task according to Audit Topic No. 15 of the Audit Plan for the second half of 2021)
26. *Audit of local government activities related to local business tax* (ongoing task according to Audit Topic No. 16 of the Audit Plan for the second half of 2021)
27. *Audit of the activities of the National Tax and Customs Administration related to the small taxpayers' itemised lump sum tax and small business tax, and other tasks* (ongoing task according to Audit Topic No. 17 of the Audit Plan for the second half of 2021)
28. *Audit of the copyright system – Audit of the activities of the Hungarian Intellectual Property Office and the accountability and transparency of copyright organizations* (ongoing compliance audit task according to Audit Topic No. 18 of the Audit Plan for the second half of 2021, supplemented with a performance audit in the first half of 2022)
29. *Audit of certain audit organizations constituting the second line of defense in the course of auditing local governments* (ongoing task according to Audit Topic No. 21 of the Audit Plan for the second half of 2021)
30. *30/1. Follow-up audit* (phase three, ongoing task according to Audit Topic No. 23 of the Audit Plan for the second half of 2021)
30/2. Follow-up audit (phase four)
31. *Follow-up audit, risk assessment of financial management* (phase four, ongoing task according to Audit Topic No. 24 of the Audit Plan for the second half of 2021)
32. *32/1. Monitoring audit of users of public funds belonging to the central and local government subsystems of the general government* (ongoing task according to Audit Topic No. 26/1 of the Audit Plan for the second half of 2021)
32/2. Risk-based audit of users of public funds belonging to the central and local government subsystems of the general government(ongoing task according to Audit Topic No. 26/2 of the Audit Plan for the second half of 2021)
32/3. Audit of users of public funds belonging to the central and local government subsystems of the general government (ongoing task according to Audit Topic No. 26/3 of the Audit Plan for the second half of 2021)
33. *33/1. Risk-based audit of users of public funds belonging to the central and local government subsystems of the general government* (phase two, ongoing task according to Audit Topic No. 27/1 of the Audit Plan for the second half of 2021)

- 33/2. *Audit of users of public funds belonging to the central and local government subsystems of the general government (phase two, ongoing task according to Audit Topic No. 27/2 of the Audit Plan for the second half of 2021)*
- 33/3. *Monitoring audit of users of public funds belonging to the central and local government subsystems of the general government (phase two)*
34. 34/1. *Audit of users of public funds belonging to the central and local government subsystems of the general government (phase three)*
- 34/2. *Risk-based audit of users of public funds belonging to the central and local government subsystems of the general government (phase three)*
35. *Financial monitoring-based audit of local governments (phase three)*
36. *Audit of the management and proprietary functions of budgetary bodies (phase three)*
37. 37/1. *Risk-based audit of non-public sector human service providers – Audit of the utilisation of support from the central budget received by non-public sector proprietors of institutions and service providers providing public education and social human services (phase six, ongoing task according to Audit Topic No. 31/2 of the Audit Plan for the second half of 2021)*
- 37/2. *Audit of non-public human service providers – Monitoring audit of the regulation of the utilisation of support from the central budget received by non-public sector proprietors of institutions and service providers providing public education and social human services (phase two)*
38. 38/1. *Audit of nationally owned business organizations (ongoing task according to Audit Topic No. 32/1 of the Audit Plan for the second half of 2021)*
- 38/2. *Audit of nationally owned business organizations (phase two, ongoing task according to Audit Topic No. 32/2 of the Audit Plan for the second half of 2021)*
- 38/3. *Audit of nationally owned business organizations (phase three)*
39. 39/1. *Monitoring-based audit of the integrity of business organizations in majority state or municipal ownership (phase two, ongoing task according to Audit Topic 33/2 of the Audit Plan for the second half of 2021)*
- 39/2. *Monitoring-based audit of the integrity of business organizations in majority state or municipal ownership (phase three)*
40. *Risk-based audit of assets of nationally owned business organizations (phase two, ongoing task according to Audit Topic 34/2 of the Audit Plan for the second half of 2021)*
41. *Monitoring-based audit of organizations specified as other entities in the Accounting Act that are recipients of central budget support (phase two)*

I.

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

Type of audit: compliance audit

2021 FINAL ACCOUNTS

Audit of the implementation of the 2021 Central Budget of Hungary

Purpose of audit: to assess whether the contents and structure of the bill on the final accounts is in compliance with the provisions of legal regulations; whether the provisions of the Fundamental Law and the Act on the Economic Stability of Hungary have been enforced; and whether the evolution of the deficit in the central subsystem of the general government complied with the requirements of the Year 2021 Central Budget Act. Furthermore, it is to determine whether government revenues were used in compliance with the statutory requirements for the management of public funds as determined in the Year 2021 Central Budget Act; whether the Bill on the Final Accounts truthfully presents 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 individuals with authorization and competence to implement the budget managed public funds in a regular manner and within the budgetary limits determined in the 2021 Central Budget.

The audit covers the monitoring of the 2022 budgetary processes, particularly the factors influencing changes in public debt.

Justification of the audit and expected results: According to the Fundamental Law, the audit of the implementation of the central budget is performed by the SAO. According to the provisions of the SAO Act, the SAO is responsible for carrying out the audit of the final accounts annually. In fulfilling its statutory obligation, the SAO makes it possible for the National Assembly to adopt the Final Accounts Act based on a sound decision. The results of the audit will provide a comprehensive and objective picture on the reliability of data contained in the Bill on the Final Accounts for 2021, and on expenditures incurred in a state of emergency. With its findings, 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.

Topic No.: 2

Type of audit: compliance audit

OPINION ON THE 2023 CENTRAL BUDGET

Opinion on the Bill on Hungary's Year 2023 Central Budget

The purpose of providing our opinion is to assess whether the drafting of the Bill on the Central Budget complied with legal requirements; whether the revenue and expenditure appropriations of the Bill have been planned taking into account macroeconomic forecasts; and whether the methods, background calculations and impact studies used in planning and amendments proposed to state regulatory instruments ensured sound foundation for the Bill. Our opinion will also cover whether the requirements set out in the Planning Information have been met; whether the public debt rule applies on the basis of the provisions of the Fundamental Law and Act CXCIV of 2011 on the Economic Stability of Hungary; whether consistency is ensured between the Bill and the plans that are part of the government programme; whether the planned appropriations include expenditure necessary for the performance of public tasks; and whether the financial and economic implications of EU membership have been taken into account.

Justification of the audit and expected results: By fulfilling its legal obligation, the SAO provides an opinion on the budget bill, pointing out its risks. By commenting on the budget bill and preparing related analyses, the SAO contributes to the elaboration of a well-founded resolution by the Fiscal Council of Hungary. Furthermore, the SAO supports the National Assembly in adopting a budget act that meets legal requirements.

As part of its opinion, the SAO points out any risks identified in the year 2023 budget bill which can be managed efficiently and in a timely manner. Findings in our opinion will support the institutions and organizations responsible for budget planning and also budgetary bodies in preparing sound future budget plans.

The strength and duration of the fourth wave of the coronavirus pandemic and its implications for economic and budgetary developments represent uncertainties for planning the year 2023 budget, as a result of which the SAO's opinion-making is at the centre of public interest.

Type of audit: regularity audit

AUDIT OF THE LEGALITY OF THE YEAR 2020-2021 FINANCIAL MANAGEMENT OF POLITICAL PARTIES RECEIVING BUDGET SUPPORT

3/1. *Audit of the legality of the 2020-2021 financial management of Fidesz-Magyar Polgári Szövetség (Fidesz - Hungarian Civic Alliance)*

3/2. *Audit of the legality of the 2020-2021 financial management of Kereszténydemokrata Néppárt (Christian Democratic People's Party)*

3/3. *Audit of the legality of the 2020-2021 financial management of Momentum Mozgalom (Momentum Movement)*

3/4. *Audit of the legality of the 2020-2021 financial management of Magyar Kétfarkú Kutya Párt (Hungarian Two-Tailed Dog Party)*

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

Justification of the audit and expected results: Based on Clause a) of Section 5 (11) of Act LXVI of 2011 on the State Audit Office of Hungary, and Section 10 (1) of Act XXXIII of 1989 on the Operation and Financial Management of Political Parties, the SAO is authorized to conduct financial regularity audits on the legality of the financial management of political parties. 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 include auditing the regularity of additional material areas, based on risk indicators and depending on the risk assessment, until the date of commencement of the audit, taking into consideration the legal requirements and the public methodology published by the SAO.

Presenting the regularity of financial management and the volume of the 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 points out good practices and irregularities in the financial management of political parties and the utilisation of funds from the state budget. Revealing any deficiencies and irregularities and determining the relevant findings may facilitate sanctions to be applied for violating statutory provisions. Another outcome of the audit is an assessment of the utilization of the warnings of the previous SAO audit.

Topic No.: 4

Type of audit: regularity audit

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

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

In compliance with its legal obligation, the SAO will assess the task performance of organizations exercising ownership rights over state assets which constitute a significant part of national assets, in order to promote a responsible management of public 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 points out any opportunities for developing the task performance of organizations exercising ownership rights over state assets, thus supporting the strengthening of the control system over state assets and responsible, orderly management of assets. The audit provides information to the legislative authorities, the affected entities and the society concerning the performance of duties in exercising proprietary rights over state assets, thereby contributing to transparency and substantiating the decisions affecting this area.

Type of audit: compliance audit

AUDIT OF NON-GOVERNMENTAL ORGANIZATIONS ENGAGED IN ACTIVITIES CAPABLE OF INFLUENCING PUBLIC LIFE

Purpose of audit: to assess how non-governmental organizations engaged in activities capable of influencing public life have ensured the transparency of their financial management; how they have developed their basic regulatory frameworks for financial management.

Justification of the audit and expected results: The tasks performed by non-governmental organizations affect a wide group of people in society, and their activities may form the opinions of various social target groups. Some non-governmental organizations may exert significant impact on public life, given the goals they pursue and the means available to them. In the financial management of non-governmental organizations as well, the application of the principles of transparency and purity of public life is justified.

Pursuant to a statutory requirement effective from 1 July 2021, the SAO has the task to assess, in terms of legality, some associations and foundations meeting certain stipulated criteria. The assessment will be useful in providing credible information to the public and those interested in the activities of the non-governmental organizations concerned. The assessment will support the work of legislative bodies in relation to the legality of the financial management of the non-government sector, and also supports non-governmental organizations by highlighting areas to be developed in terms of the legality and transparency of their financial management. The SAO supports the activities of all non-governmental organizations by presenting good practices.

Topic No.: 6

Type of audit: regularity audit

REVIEW OF THE LOCAL GOVERNMENT DECREE ON THE ALLOCATION OF SHARED REVENUES OF THE BUDAPEST CAPITAL CITY MUNICIPALITY AND BUDAPEST DISTRICT MUNICIPALITIES IN 2021

Purpose of audit: to audit the division of revenues shared by the Budapest Municipality and Budapest district local governments in 2021 and to determine the regularity of establishing and accounting for expenses related to local taxation.

Justification of the audit and expected results: The scope of the revenues shared by the Budapest Municipality and the local governments of the districts as well as the rules of resource allocation are determined by Act CXXXIII of 2006 on the Allocation of Resources between the Budapest Municipality and the 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.

Type of audit: regularity audit

AUDIT OF THE LEGALITY OF THE 2019-2020 FINANCIAL MANAGEMENT OF FOUNDATIONS OF POLITICAL PARTIES RECEIVING BUDGET SUPPORT

7/1. Financial regularity audit on the legality of the 2019-2020 financial management of Táncsics Mihály Alapítvány (Mihály Táncsics Foundation)

7/2. Financial regularity audit on the legality of the 2019-2020 financial management of Jobbik Magyarországért Alapítvány (Foundation for a Better Hungary)

7/3. Financial regularity audit on the legality of the 2019-2020 financial management of Ökopolisz Alapítvány (Ökopolisz Foundation)

7/4. Financial regularity audit on the legality of the 2019-2020 financial management of 'Megújuló Magyarországért Alapítvány' (Progressive Hungary Foundation)

7/5. Financial regularity audit on the legality of the 2019-2020 financial management of Új Köztársaságért Alapítvány (Foundation for a New Republic)

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

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

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

Topic No.: 8

Type of audit: regularity audit

AUDIT OF THE LEGALITY OF THE 2020-2021 FINANCIAL MANAGEMENT OF FOUNDATIONS OF POLITICAL PARTIES RECEIVING BUDGET SUPPORT

8/1. *Audit of the legality of the 2020-2021 financial management of Szövetség a Polgári Magyarorszáért Alapítvány (Foundation for a Civic Hungary)*

8/2. *Audit of the legality of the 2020-2021 financial management of Barankovics István Alapítvány (István Barankovics Foundation)*

8/3. *Audit of the legality of the 2020-2021 financial management of 'Indítsuk be Magyarországot Alapítvány' (Let's Get Hungary Started Foundation)*

8/4. *Audit of the legality of the 2020-2021 financial management of Savköpő Menyét Alapítvány (Acid Spitting Weasel Foundation)*

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

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

II.

MANDATORY AUDIT ASSIGNMENTS BASED ON LEGISLATIVE AUTHORIZATION

(UNDEFINED FREQUENCY)

Type of audit: **regularity audit**

**REGULARITY AUDIT ON THE OPERATION OF THE MAGYAR NEMZETI BANK
(NATIONAL BANK OF HUNGARY)**

Purpose of audit: With regard to the non-core activities and financial management of the MNB, to assess how the operation of the MNB’s management, decision-making and control systems was ensured; how MNB’s financial management framework was developed; how the organizational framework for its activities supervising, controlling and regulating the financial intermediary system has been established; and how the resolution activities of MNB were performed.

Justification of the audit and expected results: Pursuant to Section 5 (10) of the SAO Act, the SAO will audit the financial management of the Central Bank of Hungary and its activities related to non-core tasks as set out in the provisions of the Act on the Magyar Nemzeti Bank. Fulfilling its legal obligations, the SAO regularly assesses the financial management of the MNB (Central Bank of Hungary) and the enforcement of the criteria of regular operations.

The MNB is the central bank of Hungary and, as mandated by the Fundamental Law, it is responsible for monetary policy, it supervises the financial intermediary system and, therefore, its operations and financial management are in the centre of public interest.

The primary outcome of the audit is supporting the work of the National Assembly, informing the stakeholders and the wider public about the regularity of the operation and financial management of the MNB.

With regard to the audited organization, the findings and recommendations of the audit will contribute to the identification of areas for improvement in the regulation of operations and in the set-up of controls, and to the review of internal regulations and practices. It provides credible information to the public about the operation and financial management of the MNB, about the performance of its non-core tasks, its responsible financial management of public funds, thus contributing to the dissemination of general professional information. As the “auditor of auditors”, the SAO may see its conclusions be utilized at multiple levels as its findings may contribute to making the activity of the auditors more regular and efficient.

III.

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

Type of audit: performance audit

AUDIT OF THE PREVALENCE OF TELEWORK AND WORKING FROM HOME

Purpose of audit: to assess how the achievement of digital strategic goals, the conditions necessary for teleworking and working from home, and the measures introduced during the pandemic supported the application of teleworking; thus how they have contributed to the protection of the health of families, and that of workplaces and the economy, as well as the effectiveness of pandemic control.

Justification of the audit and expected results: Access to a fast, reliable and secure information technology infrastructure is an important precondition for working from home – its quality contributes greatly to the efficiency of working from home. The Superfast Internet Programme was implemented within the framework of the Digital Welfare Programme 2.0 launched by the Government of Hungary. Internet access as a percentage of all domestic households increased from 73.0% in 2014 to 86.0% in 2019, and all these technological developments have contributed to establishing the basic conditions for teleworking, which greatly contributed to the safety of work during the COVID-19 pandemic. In view of the pandemic situation, the Government introduced several measures that helped to eliminate personal contacts.

The audit will assess the pro-rata temporis implementation of digital strategic objectives, the availability of conditions for teleworking and working from home, and the measures introduced in the context of the pandemic in terms of how they supported teleworking and working from home, and thus the pandemic control efforts. As a result, the effect of teleworking and working from home on employment and job retention can also be assessed. The necessity of the audit is also supported by the fact that the COVID-19 pandemic, in addition to its health consequences, had a significant impact on the functioning of society, people's lifestyles and also had a fundamental impact on the world of work, thus, the information measures introduced are of public interest to the stakeholders (population, businesses).

Topic No.: 11

Type of audit: compliance and performance audit

AUDIT OF EMPLOYMENT SUPERVISION

Purpose of audit: to assess how the organizations conducting official employment supervision audits have developed the conditions and the organizational framework of such audits. As part of its performance audits, SAO will assess the effectiveness of the Employment Supervision Authority's activities; and how recipients of employment aid have contributed to the goals of economic whitening; and how they have ensured the enforcement of basic labour law regulations.

Justification of the audit and expected results: The efficiency of employment aid and labour market services will determine whether they can respond to the challenges of the economic environment and of the labour market. The most important development policy goal for Hungary is to significantly increase the level and quality of economic performance (GDP) and employment in the country and some individual parts of it, through which a substantial improvement in the quality of life and living conditions can be achieved. The task of the development policy is, among others, to formulate an economic policy that promotes legal employment.

The audit highlights whether the implementation of employment related development policy objectives has been successfully facilitated by the organizational system of employment supervision operating in accordance with the changed legal framework.

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 audit: performance audit

AUDIT OF THE PREVENTION TASKS OF DISASTER MANAGEMENT

Purpose of audit: to assess how the disaster management system contributed to increasing the security of the country through tasks performed in connection with fire prevention and preparation; official controls; and activities of organizations involved in prevention tasks.

Justification of the audit and expected results: Disaster management is a national affair, and fulfilling its role as expected by society requires an increase in the level of state involvement. In recent years, natural disasters hitting Hungary, as well as migration and the COVID-19 pandemic represented regular operational tasks for the disaster management bodies, the local governments and the population. Due to emergencies directly threatening the safety of life, assets, the environment and the security of the economy, attention is focused on the activities of defence agencies from time to time, therefore, it is especially important to ensure the appropriateness of the processes of prevention, protection and recovery, and the coordination of the tasks of the actors involved in defence activity.

The audit will allow the SAO to assess the extremely complex process of prevention, and thus – in the case of successful operation – to contribute to increasing the safety of the country and to highlight any areas to be developed.

Topic No.: 13

Type of audit: compliance and performance audit

AUDIT OF THE PROTECTION OF WATERS AND THE PERFORMANCE OF WATER MANAGEMENT TASKS

Audit of water utility services

Purpose of audit: to assess how the planned and implemented measures aimed at quality water utility services have ensured the achievement of a good status of waters; the dissemination of irrigation farming; and the fulfilment of objectives and indicators of national strategies and programmes. As part of the audit, the SAO will assess how the development of legal, organizational, financial and monitoring conditions supported the realisation of domestic water management objectives and the efficiency of cost management. The audit will also assess the asset management of water utility companies and the administrative activities of the Hungarian Energy and Public Utility Regulatory Authority regarding the pricing, licensing and supervision of water utility services.

Justification of the audit and expected results: The Fundamental Law of Hungary declares that water resources constitute a common heritage of the nation, the protection and preservation of which for future generations is the duty of the state and everyone in general. According to the Fundamental Law, everyone has the right to physical and mental health, which Hungary promotes by ensuring access to healthy drinking water. It is the task of the state to spread irrigation farming and to protect and utilize water resources.

Through this audit, the SAO will contribute to the realisation of the national strategic goals for water protection and quality water utility services. As a result of the audit, the society will have access to credible information on the cost- and asset management of water utility companies, and the administrative activities regarding the pricing, licensing and supervision of water utility services.

In addition to the assessment of the utilisation of public funds in Hungary, the SAO also carries out a wide range of international activities, allowing it to have an international outlook.

Type of audit: performance audit

AUDIT OF PUBLIC PROPRIETORS OF INSTITUTIONS PROVIDING RESIDENTIAL SOCIAL CARE FOR THE ELDERLY

Purpose of audit: to assess the extent to which activities by the Directorate-General for Social Affairs and Child Protection as proprietor have contributed to the effective and efficient task performance by residential institutions providing care and nursing services to the elderly; and how the measures taken by the public proprietor have contributed to an improvement in the quality of social care for the elderly and to the enforcement of the requirement of transparency regarding social care for the elderly. In addition, it is to assess how the sectoral management activities of the Ministry of Human Resources have contributed to the achievement of objectives for the development of residential social care for the elderly.

Justification of the audit and expected results: The Fundamental Law stipulates that Hungary guarantees basic human rights to everyone without any discrimination. In addition to general equality of rights, the Fundamental Law also emphasizes that Hungary protects the elderly with special measures. Caring for the elderly requires a care system that is accessible to all, provides adequate services and also ensures efficient task performance. The care and service providing system can be efficient if it adapts to socio-family structural changes, needs and economic conditions. The Covid-19 pandemic has highlighted that the proper functioning of homes for the elderly is essential in order to save lives and ensure an adequate quality of life, and in this the proprietor has a key responsibility. Based on all this, the quality of public services related to old-age care is a topic of public interest.

The financing of the social care systems involves the utilisation of significant amounts of public money. In the case of public funds spent on institutions of the social care system, the principles defined in the Fundamental Law concerning the transparency and accountability of the utilisation of public funds must also apply. The requirements of efficiency and effectiveness can be enforced through activities carried out by the public proprietors of institutions, which contribute to the improvement of the quality of care for the elderly.

The audit will provide the society with an overview of the areas of the public institutional system providing care for the elderly that still need to be developed. The audit of the SAO may also reveal good practices at public proprietors, which can be set as an example for municipal and non-public proprietors for future task performance.

Topic No.: 15

Type of audit: performance audit

ASSESSMENT OF MEASURES TAKEN FOR THE DEVELOPMENT OF THE DIGITAL STATE – HEALTH CARE SECTOR

Purpose of audit: to assess the extent to which measures taken to increase digitalisation in the field of health services have contributed to improving the quality of public health services and the quality of life of the population using them.

Justification of the audit and expected results: The Fundamental Law of Hungary stipulates that everyone has the right to physical and mental health. The state promotes this, among others, by organizing health care services. The digital development of health care is one of the strategic goals of the Government. The development of health care is inconceivable without digital technologies, the conscious use of which is a key to improving the health and quality of life of the Hungarian population.

The audit provides an answer to how the digitalisation of public health services has contributed to improving the quality of life of the population. For the National Assembly and the Government, the audit points out the direction in which the implementation of the strategic objectives planned for the digitalisation of health care is progressing.

The audit topic is relevant to current affairs as the measures taken so far by the Government in the field of digitalisation as a result of the pandemic situation are of public interest among stakeholders (citizens, enterprises). The survey conducted as part of the audit highlights the positive experiences of citizens related to e-health services and a growing confidence in the functioning of the state.

Type of audit: performance audit

AUDIT OF PROVIDERS OF PUBLIC LIBRARY SERVICES AND LIBRARY SERVICES

Purpose of audit: to assess how measurable, traceable performance goals of the institutions providing public library services were set to ensure the enforcement of efficiency and effectiveness requirements; and how performance criteria were developed in the field of evaluating the quality of management, the utilisation of public funds, and the protection of cultural assets registered in the collection of libraries. Additionally, it is to assess how performance targets were measured and evaluated during the audited period and how the requirements of effectiveness and efficiency were enforced.

Justification of the audit and expected results: Libraries are considered public collections forming a part of basic cultural services: they safeguard invaluable national assets, as well as documents and collections related to universal culture. Maintaining and developing library services is an overriding public interest for citizens and communities as a whole. The need for additional auditing of public libraries is supported by the amount of public money spent on the maintenance of libraries; the diversity of proprietors of public libraries; the high number of public libraries and task performing places; the special range of assets managed by libraries – cultural goods –; and the risks identified through earlier audits of public libraries.

As a result of the audit, the audited organizations will receive support to ensure that the considerations of efficiency and effectiveness prevail during the development and operation of their performance evaluation systems. Utilization of audit perceived at the level of society: the quality of public library services will increase through the efficient management of public collections and cultural assets managed by libraries. The audit will answer the question of whether the library system is able to adequately serve the needs and expectations of citizens – the library users. The audit will also provide legislators with feedback on the status of the implementation of performance-based criteria in operation.

Topic No.: 17

Type of audit: performance audit

SUSTAINABILITY OF A GOOD QUALITY LIFE

Purpose of audit: to assess the extent to which measures planned and implemented to achieve a long-term sustainable good quality of life and the measurement and evaluation of results achieved have contributed to a well-governed state.

Justification of the audit and expected results: The Fundamental Law stipulates the goal of sustainable development in the National Creed. Hungary's National Sustainable Development Framework Strategy has identified sustainability goals in the fields of four national resources (people, society, environment, and economy). The effects of climate change and environment pollution are becoming more intense, affecting people's living conditions and quality of life, endangering natural resources, damaging the built environment, and ultimately being an obstacle to sustainable development. By negatively behaving and rejecting or ignoring the approach to sustainable development, people themselves have a negative impact on the state of our environment. The accelerating climate change is mainly due to a significant increase in greenhouse gas emissions. The expectation of practical, effective and efficient utilisation is also relevant to public funds spent on government actions on climate change; public investments; support to economic operators and the general public to improve energy efficiency; and support to renewable energy production

It is a question of public interest what government measures have been taken to maintain a good quality of life in Hungary, how the implementation of such measures has contributed to the achievement of the goals of long-term sustainable good quality of life, and to the fulfilment of Hungary's international obligations.

The SAO audit will provide an answer to what measures have been taken to effectively achieve the goals of reducing environmental pollution and excessive energy consumption. For the developers of strategies, the audit will highlight the coherence between actions, plans and their implementation to ensure that objectives are met. The audit may be of public interest among public sector institutions, enterprises related to the public sector, and the business sector.

Type of audit: compliance and performance audit

AUDIT OF THE OPERATION AND FINANCIAL MANAGEMENT OF REGIONAL DEVELOPMENT COUNCILS

Purpose of audit: to evaluate whether the regulation of the financial management of the work organizations of regional development councils, the performance of reporting obligations, the establishment and operation of the internal control system, and the enforcement of effectivity 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 specific location, 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 the 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 developments. The information on the evaluation of the operation of regional development councils, the management of their work organizations and their internal control systems allow the society to get an objective picture about the regularity of the management of these organizations, the existence of the conditions of using public funds, and the effectiveness of the operation of regional councils. The audits support the transparency and the accountability of the use of public funds in this special area, too. The audit will also answer the question of which areas are to be strengthened to achieve that territorial proportions are approximated though development activities by the state.

Topic No.: 19

Type of audit: compliance audit

AUDIT OF NUCLEAR SECURITY

Purpose of 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, regulation and control systems of organizations 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 the 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 including medicine, agriculture, as well as education and scientific research, too, and plays an active role in 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 carried out by the SAO contributes to the development and harmonization of regulations. In the course of the audit, the SAO evaluates the regulation of the institutions 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 organizations involved in the management and use of the Fund. The audit will provide information to the public, the legislators and the responsible authorities on the state of controlling nuclear facilities in Hungary, highlighting the areas that can be addressed to ensure a more regular and efficient task performance in that field.

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 audit: compliance and performance audit

AUDIT OF THE CONTROLLING ACTIVITIES OF ORGANIZATIONS CONTROLLING ELECTRONIC TRADE IN HUNGARY

Purpose of audit: to evaluate whether the organizations involved in electronic commerce established the conditions of controlling online trading, whether the implementation of audits was regulated and effective, and whether it contributed to the collection of taxes and duties related to online trading.

Justification of the audit and expected results: The dynamic growth seen in the volume of electronic commerce 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 budget revenues, too. The increase in electronic trade in Hungary is illustrated by the fact that the percentage of people buying products on the internet increased from 18% in 2010 to 41% in 2018, and the turnover of delivery and web-based businesses reached HUF 543.2 billion in 2018.

Since 2020, the impacts of the coronavirus pandemic have further increased the volume of e-commerce, as more and more people prefer the safety of online shopping. In the past five years e-commerce has become the fastest growing industry. Meanwhile, the tasks of the organizations controlling online trading activities have also increased and have been in the focus of public attention.

The audit findings may facilitate the regular and transparent task performance of the controlling organizations, the effectivity of audits, the strengthening of customer satisfaction and trust in e-commerce, and thus the widest possible realisation of revenues due to the central budget from internet trading.

The audit will also shed light on domestic regulatory issues in e-commerce that require further development. It will also present the areas not covered by audits, thus supporting the work of legislators and organizations involved in e-commerce, and promoting the enforcement of citizens' interests. Based on the assessment of the audit we will find answers to the following questions: which areas of operation need to be improved; how and in what direction can operating conditions be improved; where is room for improvement in strengthening legality and promoting effective public task performance (improving law-abiding behaviour); and what tools can contribute to these.

Topic No.: 21

Type of audit: regularity audit

AUDIT OF MILITARY PROCUREMENTS

Audit of the controlling activities of the Defence Economic and Financial Office related to military procurements

Purpose of audit: to evaluate whether the internal control system of the Defence Economic and Financial Office 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 general competence in auditing the responsible management of public funds. When auditing the use of funds originating from the central budget, the SAO audits organizations operating by means of public funds.

Meeting the obligations relating to 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 the extension of infrastructure.

The Zrínyi 2026 Defence and Military Development Programme was adopted for this purpose, and it is the largest and most comprehensive defence programme seen in the past twenty-five years. The primary objective of the programme is to supply the army with up-to-date equipment and to renew and purchase the necessary technical devices. In the period until 2026, the amount to be spent on the development of the Hungarian Defence Forces will exceed HUF 3,500 billion according to the programme.

Presently, the programme is halfway through its implementation period. Considering the fact that the defence organizations' procurement demands and their release from procurement bans are controlled by the Defence Economic and Financial Office of the Ministry of Defence, it is reasonable for the SAO to evaluate how this organization functioning as the first line of defence over military procurements has prepared for the controlling task that affects the use of significant amounts of public funds, and whether the individual pillars of the organization's control system provide the conditions of audit task performance.

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 Economic and Financial Office.

Type of audit: compliance audit

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

Purpose of audit: to find out whether the legislative environment and the internal control system of the Hungarian State Treasury and its audits ensure the reliability of information it is obliged to publish with respect to reported data and the debts of organizations belonging to the central subsystem of the national 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 the management of finances and assets with monthly, quarterly and annual frequency; also, on the expired debts of budgetary bodies belonging to the central subsystem of the national budget with monthly frequency. The published data 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. That is why it is particularly important to audit the control processes used for the publication of data.

In this audit, the SAO evaluates whether the establishment and 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 concerning the true and reliable nature of information included in the data supplies of organizations 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 will contribute to ensuring the provision of real and credible information to the social and economic actors. The evaluation of the audit may explain how the quality of preparations for better state and government-level decision-making could be improved by collecting and processing relevant data; how the transparency of data of public interest may promote real evaluation through the financial processes of the state in order to enforce the wide-ranging interests of citizens.

Topic No.: 23

Type of audit: compliance and performance audit

AUDIT OF THE SYSTEM OF DATA COLLECTION AND DATA PROCESSING

Purpose of audit: to evaluate whether the characteristics of the statistical data of the audited organizations 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 administrative data registered or collected by organizations performing public tasks differ in terms of the volume of data collected, the scope and number of data providers, and the methods of data collection as well. The accuracy and reliability of statistical data represent an essential effectiveness factor. The higher the number and diversity of the data providers, 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 the statistical activities contributed to the supply 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 organizations (in particular data transfer and data processing) ensured the reliability of transferred/received administrative data. Furthermore, whether the increased use of secondary data sources, in particular administrative data sources contribute to the effectiveness 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 digitalisation tools more effective to extend social well-being; how could the increase in national income be accelerated by using existing instruments 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 audit: performance audit

AUDIT OF MEASURES TAKEN FOR THE DEVELOPMENT OF A DIGITAL STATE

Purpose of 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 information communications 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 Information Communications Strategy determined the objectives to be reached in respect 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 EU average.

The audit will highlight the direction in which the strategic objectives for increasing digital competitiveness have progressed; whether resources allocated to the objectives of the development of the digital state were appropriate; whether the measures taken ensured the fulfilment of indicators related to the pillar of the digital state; whether there is a need for government intervention on the basis of any shortcomings identified in the achievement of strategic objectives (in the effectiveness of measures). Another reason supporting the audit is that, considering the information communications measures introduced because of the COVID-19 pandemic, the 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 efforts made in the area of public services contribute to higher standards of administration for the population / businesses.

Topic No.: 25

Type of audit: performance audit

AUDIT OF THE EFFECTIVENESS OF THE UTILISATION OF FUNDS PROVIDED FOR RESEARCH, DEVELOPMENT AND INNOVATION

Purpose of audit: to assess the extent to which measures planned and implemented in the field of research, development and innovation have contributed to the strategic goals of research, development and innovation, and to national income; how the results of research, development and innovation were established, measured and evaluated; whether the reporting system ensured the availability of information for the implementation of the strategy.

Justification of the audit and expected results: Research, development and innovation have special macroeconomic importance as they significantly contribute to economic development and are essential for the international competitiveness of the country, too. The most important factor of a country's R&D&I performance is the existence of a well-balanced innovation system that properly combines public and private investments, encourages the co-operation of companies with each other and the actors of the scientific community 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, development and innovation are investments into the future of companies and of the country, therefore the current governments are responsible for creating conditions that encourage companies to pursue research, development and innovation. The development of sciences contributes to the improvement of the 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. Given the target date for domestic commitments, the audit will present the results in terms of the objectives set out in the research, development and innovation strategies and related measures, highlighting the issues that need to be improved in order to implement goals more effectively. It is of special importance to make sure that the use of public funds spent on research, 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 sales 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 achieved in various disciplines and its 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 its 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, development and innovation.

Type of audit: compliance and performance audit

AUDIT OF LOCAL GOVERNMENT ACTIVITIES RELATED TO LOCAL BUSINESS TAX

Purpose of 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: The local governments constitute essential elements of democracy. The fundamental task of the 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 pursued by local governments.

Local business tax represents a significant source of income for the local government subsystem, and for some local governments it makes up a major portion of revenues, therefore the taxation activities of local governments are of special importance. 90% of Hungary's local governments have introduced local business taxes. The primary objective of the SAO audit regarding local business tax is to determine whether the local governments' tax authorities carried out taxation activities in a proper way.

Through its assessment based on audit evidence, the SAO contributes to the legislative work of the National Assembly and to the strengthening of good governance practices. By revealing any possible errors and risks in regularity, the audit will contribute to the further development of the law-abiding behaviour of local governments. As a result of the audit assessment it may be possible to identify the direction of progress from the aspect of strengthening a more effective local taxation system.

Topic No.: 27

Type of audit: compliance and performance audit

AUDIT OF THE ACTIVITIES OF THE NATIONAL TAX AND CUSTOMS ADMINISTRATION RELATED TO THE SMALL TAXPAYERS' ITEMISED LUMP SUM TAX AND SMALL BUSINESS TAX, AND OTHER TASKS

Purpose of audit: to assess whether certain activities of the National Tax and Customs Administration (NAV) regarding small taxes (KATA: small taxpayers itemised lump sum tax, and KIVA: small business tax) with regard to reporting, tax returns, tax audits, arrears management (tax collection), bad debts, termination of taxable entity status, and the management of complaints and reports were properly regulated, and to determine the effectiveness of performing key tasks. The audit covers the evaluation of the establishment and operation of internal controls that ensure the proper performance of these 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 and simple tax categories 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 increasingly available, 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, additions have been enacted to small taxes, a circumstance that confirms the justification of 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 bodies of the tax authority, involved in either taxation or other tasks. The audits related to the activities of the tax authority are carried out by the SAO according to a systematic plan annually, aiming 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.

Through its assessment based on audit evidence, the SAO contributes to the legislative work of the National Assembly and to the strengthening of good governance practices.

Type of audit: compliance and performance audit

AUDIT OF THE COPYRIGHT SYSTEM

Audit of the activities of the Hungarian Intellectual Property Office and the accountability and transparency of copyright organizations

Purpose of audit: to assess how the Hungarian Intellectual Property Office (HIPO) has developed its internal control environment; and to assess the adequacy of HIPO's performance of tasks related to copyright organizations and its supervisory activities; as well as the adequacy of establishing and accounting for revenues due to HIPO with respect to managing copyrights (administrative service fees, supervisory fees, fines, penalty for delay). The audit will also assess whether measurable and traceable performance targets and performance criteria have been developed; whether performance targets have been measured and evaluated; and whether the effectiveness requirement has been enforced.

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

As part of the audit, the SAO will assess whether the HIPO performs its tasks in a properly established control environment and whether the copyright organizations are accountable and transparent; whether the task performance and the activities of the HIPO really contribute to the protection of copyrights as stipulated by the law. As part of the audit, the SAO will also form a picture on the operation and financial management of copyright organizations. The audit will reveal specific processes connected to maintaining records and supervising collective rights managers and independent rights manager; approval of the tariffs of representative collective managers, and their enforcement by copyright organizations, thereby contributing to the improvement of the quality of task performance. The establishment of performance criteria forms the basis for the conduct of performance audit at the HIPO, through which the SAO will provide feedback on the effectiveness of the operation of the copyright system and the progress made in the implementation of measures for the protection of intellectual property.

Topic No.: 29

Type of audit: compliance and performance audit

AUDIT OF CERTAIN AUDIT ORGANIZATIONS CONSTITUTING THE SECOND LINE OF DEFENSE IN THE COURSE OF AUDITING LOCAL GOVERNMENTS

Purpose of audit: to assess whether the task performance of the Budapest and county government offices relating to the legality supervision of local governments have been regulated and complied with statutory provisions. In addition, to conduct a performance audit to verify whether the goals relating to tasks performance have been determined with reports on their fulfilment, and to verify the effectiveness of supervisory activity.

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

The lawful operation of local governments, as well as the reliability of the reporting data relating to operation are essential criteria for enforcing the transparent and responsible financial management of public funds. By auditing the bodies that represent the second line of defense, the SAO will contribute to the orderly operation and financial management of local governments, thereby increasing the regularity of the utilisation of public funds and the management of national assets.

As a result of auditing the bodies constituting the second line of defense, the SAO can maximize its contribution to promoting regular, responsible and disciplined financial management in relation to public funds, since the results and findings of the SAO audits (by increasing the regularity, efficiency and transparency of auditing) can be indirectly utilized also in the operation of the audited entities.

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

Type of audit: compliance audit

FOLLOW-UP AUDIT
(phase three)

Purpose of audit: risk-based assessment whether the audited entities utilized the recommendations formulated in the SAO report for eliminating the deficiencies and mitigating risks by implementing the measures set out in the individual action plans composed by the heads of the organizations and, overall, whether public finances have improved and the SAO's audit findings have been utilized.

Justification of the audit and expected results: Pursuant to Section 33 (1) of the SAO Act, based on the findings of the SAO reports, the heads of the audited organizations will be obliged to compile their individual action plans to submit 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.

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

Incomplete or late implementation of the measures included in the action plan prepared by the head of the audited organization or failure thereof 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 has not been 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-based follow-up audits cover the organizations required to take actions related to the findings included in the audit reports including business organizations and foundations of the governmental sector or outside the scope of the Government Decree on the internal control system and internal audit of budgetary 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 public finances. The follow-up audits provide feedback on the utilization of audit reports, and the assessment of the probable impact of the failure or partial implementation of measures jeopardising public funds and public property may result in additional measures.

Topic No.: 30/2

Type of audit: compliance audit

**FOLLOW-UP AUDIT
(phase four)**

Purpose of audit: risk-based assessment whether the audited entities utilized the recommendations formulated in the SAO report for eliminating the deficiencies and mitigating risks by implementing the measures set out in the individual action plans composed by the heads of the organizations and, overall, whether public finances have improved and the SAO's audit findings have been utilized.

Justification of the audit and expected results: Pursuant to Section 33 (1) of the SAO Act, based on the findings of the SAO reports, the heads of the audited organizations will be obliged to compile their individual action plans to submit 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.

The implementation of the measures may reduce the risks in respect of the proper functioning of the given area, but in the long run, these will not be eliminated as a result of the sole implementation of the action plan, only if it is integrated and maintained continuously within the operation of the audited organization. Incomplete or late implementation of the measures included in the action plan prepared by the head of the audited organization or failure thereof 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 has not been 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-based follow-up audits cover the organizations required to take actions related to the findings included in the audit reports including business organizations and foundations of the governmental sector or outside the scope of the Government Decree on the internal control system and internal audit of budgetary 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 public finances. The follow-up audits provide feedback on the utilization of audit reports, and the assessment of the probable impact of the failure or partial implementation of measures jeopardising public funds and public property may result in additional measures.

Type of audit: compliance audit

**FOLLOW-UP AUDIT, RISK ASSESSMENT OF FINANCIAL MANAGEMENT
(phase four)**

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

Justification of the audit and expected results: Pursuant to Section 33 (1) of the SAO Act, based on the findings of the SAO reports, the heads of the audited organizations will be obliged to compile their individual action plans to submit to the State Audit Office.

As a result of the implementation and evaluation of measures, the risks related to the proper operation of the given area may be mitigated, but on the long term, risks will not be eliminated purely by implementing the contents of the action plan. The only way is to integrate them into the operation of the audited organization and to ensure regular updates, taking into consideration and duly managing changes. Furthermore, additional risks may arise in respect of the regular operation of the organization until the measures have been implemented, the management of which is also of particular importance to the audited entity.

Incomplete or late implementation of the measures included in the action plan prepared by the head of the audited organization of failure thereof 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 has not been given due emphasis. In the event of irregularities still present during the follow-up audit, the assessment of the probable impact of jeopardising public funds and public property may lead to further measures.

Topic No.: 32/1

Type of audit: compliance audit

MONITORING AUDIT OF USERS OF PUBLIC FUNDS BELONGING TO THE CENTRAL AND LOCAL GOVERNMENT SUBSYSTEMS OF THE GENERAL GOVERNMENT

Purpose of audit: to assess whether the organizations belonging to the central and local government subsystems of the national budget have ensured the basic conditions as required for utilising public funds, thus observing the provisions stipulated in the Fundamental Law about managing public funds. The audit provides an overview on the status of basic public finance requirements regarding the organizations belonging to the central and local government subsystems.

Justification of the audit and expected results: The Fundamental Law specifies that every organization managing public funds shall be obliged to publicly account for its management of public funds. Public funds and national assets shall be managed according to the principles of transparency and 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 conduct audits with respect to organizations belonging to the central subsystem of the general government, and to local governments and local government institutions.

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

Using a monitoring approach and covering the majority of the central and local government subsystems, the SAO supports the improvement of public finances. The monitoring 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 entity, the regularity of the management of its assets and its transparency, pointing out the key deficiencies in the establishment of integrity controls. Through this audit approach, audit coverage can be significantly increased while making an efficient use of resources, and the assessment of users of public funds or public assets, or previously unaudited organizations will also become possible. The monitoring-based audits also assist the preparations for subsequent audits and 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.

Type of audit: compliance audit

RISK-BASED AUDIT OF USERS OF PUBLIC FUNDS BELONGING TO THE CENTRAL AND LOCAL GOVERNMENT SUBSYSTEMS OF THE GENERAL GOVERNMENT

Purpose of audit: to identify and evaluate future risks on the basis of the assessment of past processes of preserving national assets and documents regarding the financial management and integrity of organizations managing public funds and belonging to the central and local government subsystems of the general government.

Justification of the audit and expected results: The Fundamental Law specifies that every organization managing public funds shall be obliged to publicly account for its management of public funds. Public funds and national assets shall be managed according to the principles of transparency and purity of public life. In order to improve the transparency of public finances and protect public assets, it is justified to conduct audits with respect to organizations belonging to the central subsystem of the general government, and to local governments and local government institutions.

By identifying the risks in the central and local government subsystems of the general government, and auditing the selected organizations in a targeted and efficient way, the SAO performs its mission acting as the supreme financial audit authority. Utilising its legal authorisation, the SAO audits the budgetary organizations to 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 subsystems, the SAO supports the improvement of public finances with its evaluations on the basis of standard characteristics. The risk-based audits cover the key areas of financial management, and define focal points to facilitate the identification of risks. The risk-based audits are related to the past but highlight risks that may occur in the future, which in certain cases may call for further detailed audits at the individual organizations.

Topic No.: 32/3

Type of audit: compliance and performance audit

AUDIT OF USERS OF PUBLIC FUNDS BELONGING TO THE CENTRAL AND LOCAL GOVERNMENT SUBSYSTEMS OF THE GENERAL GOVERNMENT

Purpose of audit: to assess whether the organizations managing public funds and belonging to the central and local government subsystems of the general government operate in an accountable way; whether they have 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 legality, expediency and effectiveness. The regularity of areas identified on the basis of risk indicators is also assessed.

Justification of the audit and expected results: Any asset of an organization that belongs to the central or local government subsystem of the general government will form 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 the 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 conduct audits with respect to organizations belonging to the central subsystem of the general government, and to local governments and local government institutions.

By conducting holistic analyses regarding the processes in the central and the local government subsystems, and auditing the organizations selected through risk analysis in a targeted way, the SAO performs its mission acting as the supreme financial audit authority. By analysing the findings of individual audits and the audit results of specific periods, the SAO may draw the attention of legislators to potential financial and regulatory issues in the central and local government subsystems. In the course of its audits, the SAO may identify good practices too, which can be presented to a wider range of the affected parties as part of its advisory function, contributing to the regulated, transparent, well-balanced and sustainable operation of the budgetary system.

In order to ensure efficiency and expediency, the audits cover specific modules selected on the basis of areas identified in the course of preliminary risk analysis, that are typical of the audited entity and considered important. The audits conducted with the use of modules primarily focus on the control of operation, protection against corruption, financial processes, the management and protection of assets and the preservation of asset value and status, the preparation of projects implemented from central budget funds, and the preparedness of the specific organizations for the implementation of such projects. The SAO assesses the efficiency of economic operation and measures managerial performance in the framework of performance audits. In the case of budgetary bodies performing management tasks at medium level, the SAO examines the exercise of management responsibilities and the enforcement of responsible management.

Type of audit: compliance audit

**RISK-BASED AUDIT OF USERS OF PUBLIC FUNDS BELONGING TO THE CENTRAL AND LOCAL GOVERNMENT SUBSYSTEMS OF THE GENERAL GOVERNMENT
(phase two)**

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

Justification of the audit and expected results: The Fundamental Law specifies that every organization managing public funds shall be obliged to publicly account for its management of public funds. Public funds and national assets shall be managed according to the principles of transparency and purity of public life. In order to improve the transparency of public finances and protect public assets, it is justified to conduct audits with respect to organizations belonging to the central subsystem of the national budget and to local governments and local government institutions.

By identifying the risks in the central and local government subsystems of the general government, and auditing the selected organizations in a targeted way, the SAO performs its mission acting as the supreme financial audit authority. 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 subsystems, the SAO supports the improvement of public finances with its evaluations on the basis of standard characteristics. The risk-based audits cover the key areas of financial management, and define focal points to facilitate the identification of risks. The risk-based audits are related to the past, but highlight risks that may occur in the future, which in certain cases may call for further detailed audits at the individual organizations.

Topic No.: 33/2

Type of audit: compliance and performance audit

AUDIT OF USERS OF PUBLIC FUNDS BELONGING TO THE CENTRAL AND LOCAL GOVERNMENT SUBSYSTEMS OF THE GENERAL GOVERNMENT (phase two)

Purpose of audit: to assess whether the organizations managing public funds and belonging to the central and local government subsystems of the general government operate in an accountable way; whether they have 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 indicators is also assessed.

Justification of the audit and expected results: Any asset of an organization that belongs to the central or local government subsystem of the general government will form 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 the 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 conduct audits with respect to organizations belonging to the central subsystem of the national budget and to local governments and local government institutions.

By conducting a holistic analyses regarding the processes in the central and the local government subsystems, and auditing the organizations selected through risk analysis in a targeted way, the SAO performs its mission acting as the supreme financial audit authority. By analysing the findings of individual audits and the audit results of specific periods, the SAO may draw the attention of legislators to potential financial and regulatory issues in the central and local government subsystems. In the course of its audits, the SAO may identify good practices too, which can be presented to a wider range of the affected parties as part of its advisory function, contributing to the regulated, transparent, well-balanced and sustainable operation of the budgetary system.

In order to ensure efficiency and expediency, the audits cover specific modules selected on the basis of areas identified in the course of preliminary risk analysis, that are typical of the audited entity and considered important. The audits conducted with the use of modules primarily focus on the control of operation, protection against corruption, financial processes, the management and protection of assets and the preservation of asset value and status, and the preparation of projects implemented from central budget funds. In the case of budgetary bodies performing management tasks at medium level, the SAO examines the exercise of management responsibilities and the enforcement of responsible management. The SAO assesses the efficiency of economic operation and managerial performance in the framework of performance audits.

Type of audit: compliance audit

**MONITORING AUDIT OF USERS OF PUBLIC FUNDS BELONGING TO THE
CENTRAL AND LOCAL GOVERNMENT SUBSYSTEMS OF THE GENERAL
GOVERNMENT
(phase two)**

Purpose of audit: to assess whether the organizations belonging to the central and local government subsystems of the general government have ensured the basic conditions as required for utilising public funds, thus observing the provisions stipulated in the Fundamental Law about managing public funds. The audit provides an overview on the status of basic public finance requirements regarding the organizations belonging to the central and local government subsystems.

Justification of the audit and expected results: The Fundamental Law specifies that every organization managing public funds shall be obliged to publicly account for its management of public funds. Public funds and national assets shall be managed according to the principles of transparency and 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 conduct audits with respect to organizations belonging to the central subsystem of the general government, and to local governments and local government institutions.

By conducting holistic analyses regarding the processes in the central and the local government subsystems of the general government, and the targeted and efficient auditing of the selected organizations, the SAO performs its mission acting as the supreme financial audit authority. In the course of its audits, the SAO may identify good practices too, which can be presented to a wider range of the affected parties as part of its advisory function, contributing to the regulated, transparent, well-balanced and sustainable operation of the budgetary system.

Using a monitoring approach and covering the majority of the central and local government subsystems, the SAO supports the improvement of public finances. The monitoring 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 entity, the regularity of the preparation of investment projects and that of the management of its assets and the transparency of the organizations, pointing 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, making it possible to evaluate previously unaudited entities that use public funds and public assets. The monitoring-based audits assist the preparation of subsequent audits and contribute to making processes regular in good time, thus the SAO supports the establishment of management controls and still missing basic regulatory conditions as quickly as possible.

Topic No.: 34/1

Type of audit: compliance and performance audit

AUDIT OF USERS OF PUBLIC FUNDS BELONGING TO THE CENTRAL AND LOCAL GOVERNMENT SUBSYSTEMS OF THE GENERAL GOVERNMENT (phase three)

Purpose of audit: to assess whether the organizations managing public funds and belonging to the central and local government subsystems of the general government operate in an accountable way; whether they have 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: Any asset of an organization that belongs to the central or local government subsystem of the general government will form 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 the 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 conduct audits with respect to organizations belonging to the central subsystem of the general government, and to local governments and local government institutions.

By conducting holistic analyses regarding the processes in the central and the local government subsystems, and auditing the organizations selected through risk analysis in a targeted way, the SAO performs its mission acting as the supreme financial audit authority. By analysing the findings of individual audits and the audit results of specific periods, the SAO may draw the attention of legislators to development opportunities in the central and local government subsystems. In the course of its audits, the SAO may identify good practices too, which can be presented to a wider range of the affected parties as part of its advisory function, contributing to the regulated, transparent, well-balanced and sustainable operation of the budgetary system.

In order to ensure efficiency and expediency, the audits cover specific modules selected on the basis of areas identified in the course of preliminary risk analysis, that are typical of the audited entity and considered important. The audits conducted with the use of modules primarily focus on the control of operation, protection against corruption, financial processes, the management and protection of assets and the preservation of asset value and status, and the preparation of projects implemented from central budget funds. In the case of budgetary bodies performing management tasks at medium level, the SAO examines the exercise of management responsibilities and the enforcement of responsible management. The SAO assesses the efficiency of economic operation and managerial performance in the framework of performance audits.

Type of audit: compliance audit

**RISK-BASED AUDIT OF USERS OF PUBLIC FUNDS BELONGING TO THE CENTRAL AND LOCAL GOVERNMENT SUBSYSTEMS OF THE GENERAL GOVERNMENT
(phase three)**

Purpose of audit: to identify and evaluate future risks on the basis of the assessment of past processes of preserving national assets and key documents regarding the financial management and integrity of organizations managing public funds and belonging to the central and local government subsystems of the general government.

Justification of the audit and expected results: The Fundamental Law specifies that every organization managing public funds shall be obliged to publicly account for its management of public funds. Public funds and national assets shall be managed according to the principles of transparency and purity of public life. In order to improve the transparency of public finances and protect public assets, it is justified to conduct audits with respect to organizations belonging to the central subsystem of the general government, and to local governments and local government institutions.

By identifying the risks in the central and local government subsystems of the general government, and auditing the selected organizations in a targeted way, the SAO performs its mission acting as the supreme financial audit authority. 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 subsystems, the SAO supports the improvement of public finances with its evaluations on the basis of standard characteristics. The risk-based audits cover the key areas of financial management, and define focal points to facilitate the identification of risks. The risk-based audits are related to the past, but highlight risks that may occur in the future, which in certain cases may call for further detailed audits at the individual organizations.

Topic No.: 35

Type of audit: compliance audit

**FINANCIAL MONITORING-BASED AUDIT OF LOCAL GOVERNMENTS
(phase three)**

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

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

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

On the basis of the evaluation of local government annual budget report, interim budget report and balance sheet data available in the central information system, the monitoring system indicates the specific local governments and areas that have been affected by unfavourable economic processes or economic events that justify the conduct of audit. The audit is conducted by using the monitoring reports produced about the local government subsystem and the data and information supplied by local governments by way of certificates. This simplified audit approach makes it possible for the SAO to involve additional local governments in its assessment previously unaudited with such a focus, and by making the most efficient use of its capacities and focusing on risks, it can provide the highest possible coverage in the local government subsystem.

With its audits, the SAO contributes to the regular sustainable operation of “good governance” and 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 audit: compliance audit

AUDIT OF THE MANAGEMENT AND PROPRIETARY FUNCTIONS OF BUDGETARY BODIES

(phase three)

Purpose of audit: to assess the extent to which integrity controls for dealing with corruption risks have been established in connection with the exercise of management and ownership rights of budgetary bodies and how the integrity approach prevailed.

Justification of the audit and expected results: The SAO continuously monitors and regularly evaluates the management functions of budgetary bodies. The audit primarily focuses on assessing how the budgetary bodies and organizational units performing management and proprietary functions established and operated the system for 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 bodies, the SAO primarily focuses on organizations carrying out management and proprietary duties of particular social importance. By auditing the organizations performing management and proprietary functions, the SAO contributes to the more regular, efficient and effective performance and financial management of the entire institutional system. The SAO also points out whether the conditions of performance measurement are provided in relation to the management and proprietary activities.

In the course of the audits, the SAO can also identify good practices, and introduce such good practices to a wider scope of stakeholders as part of its advisory function, thus also contributing to the regulated, transparent and balanced operation of the budgetary system.

Topic No.: 37/1

Type of audit: compliance audit

RISK-BASED AUDIT OF NON-PUBLIC SECTOR HUMAN SERVICE PROVIDERS

**Audit of the utilisation of support from the central budget received by non-public sector proprietors of institutions and service providers providing public education and social human services
(phase six)**

Purpose of audit: to assess how the proprietors 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 used to provide significant amounts of financial support for non-public proprietors of institutions performing social and public educational functions for the purpose of performing their public duties, subject to the conditions laid out in such acts. The amount of available state subsidies as earmarked by the budget act amounted to a total of HUF 929 billion in the years between 2017-2019. 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, among 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 general government using budget support. With its assessment, the audit contributes to the proper use of subsidies by said systems and it may increase the compliance of socio-economic decisions, as the conditions of a well-managed state. The audit is further justified by the fact that several organizations in this field have not yet been audited by the State Audit Office of Hungary.

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

The SAO evaluates non-public human service providers in the framework of risk-based audits, too. The risk-based audits provide an objective picture on risky areas at the organizations, based on the evaluation of essential documents. The audits provide opportunity for both individual and group evaluations, with the scope of the audit extended to compliance of additional material areas based on risk indicators and risk assessment up to the date of commencing the audit, taking into consideration the legal requirements and the public methodology published by the State Audit Office of Hungary.

Type of audit: compliance audit

AUDIT OF NON-PUBLIC SECTOR HUMAN SERVICE PROVIDERS

Monitoring audit of the regulation of the utilisation of support from the central budget received by non-public sector proprietors of institutions and service providers providing public education and social human services (phase two)

Purpose of audit: to assess how the proprietors of public educational and social institutions outside the general government have ensured the basic conditions for a regular, transparent and accountable utilisation of public funds by regulating their operation and financial management.

Justification of the audit and expected results: The tasks performed by organizations carrying out public educational and social duties outside of public finances affect numerous groups of society, therefore they attract the attention of the general public. In the annual budget acts, the state provides significant amounts of subsidies to non-public human service providers for the performance of their tasks.

In order to increase the transparency and orderliness of public finances and to reduce any identified risks, it is justified to audit the utilisation of public funds provided to those performing public tasks outside the general government.

In the course of the monitoring audit, the SAO focuses on the regulation of the financial management of proprietors of human service providers outside of public finances. The SAO promotes the improvement of public finances at the audited proprietors by means of real-time assessment of relevant documents and recommendations for the future, formulated based on such assessments. By setting priorities, it provides an opportunity for the proprietors of human service providers operating outside the general government to identify factors in their regulations on the utilisation of budget support in which they still have some room for improvement.

The audit will contribute to the orderly utilisation of budget support by organizations outside the general government that perform public education and social public tasks; to the strengthening of public confidence; and may increase the correctness of socio-economic decisions.

Within the framework of its advisory function, the SAO will disseminate good practices observed during its audits more widely, thus contributing to the regulated, transparent, balanced and sustainable operation of the budget system.

Topic No.: 38/1

Type of audit: compliance and performance audit

AUDIT OF NATIONALLY OWNED BUSINESS ORGANIZATIONS

Purpose of audit: to assess whether the specific business organization carried out its financial management in an accountable, transparent and regular manner, ensuring the preservation of the value as well as the protection and compliant management of national assets. The SAO also audits how the entity exercising ownership rights exercised such 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 focus of media attention, which is also influenced by the size of the assets under their management (owned directly or indirectly by the state or local governments, and thus ultimately forming part of national assets), as well as the quality and efficiency of the public services provided by such organizations. In the course of the audit, special attention is paid to the substantiation of the pricing of public services and the establishment of the conditions of regular accounting. 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 explore whether the business organizations ensured the fulfilment of tasks and the conditions necessary for the continuous sustainability of service by complying with the provisions of the specific contracts for service observing responsible financial management, and whether their proprietary supervision contributed to regular financial management and task performance. As a result of the audit, the risks of the organizations influencing budget deficit can be identified and the mitigation of such risks becomes possible. The utilisation of audit recommendations 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 presentation and dissemination of solutions to be followed.

The audit is carried out based on the risk assessment of the specific organization, taking into consideration unique and material characteristics via the module(s) selected for audit, with the following highlights:

- integrity and internal control: control of operation and protection against corruption
- financial management: evaluates financial balance and financial processes, as well as the regularity of the accounting of revenues and expenditures
- property management: evaluates property management, the protection of state property, and the preservation of its value and status at the specific business organisation
- significant investments: evaluates the preparation of investment projects implemented by using central budget funds and the preparedness of the organization to implement them
- performance audit: evaluates and measures the effectiveness of economic and managerial performance
- exercise of proprietary rights: evaluates whether the entity exercising ownership rights has exercised such rights over its business organizations in a compliant manner
- ESA: evaluates whether the elements of the financial management of the companies in the government sector influencing the deficit of the government sector and public debt complied with the legal regulations.
- Risks jeopardizing the existence of business organizations: evaluates whether the financial management of the business organization was monitored in order to prevent insolvency and loss of assets.

Type of audit: compliance and performance audit

**AUDIT OF NATIONALLY OWNED BUSINESS ORGANIZATIONS
(phase two)**

Purpose of audit: to assess whether the specific business organization carried out its financial management in an accountable, transparent and regular manner, ensuring the preservation of the value as well as the protection and compliant management of national assets. The SAO also audits whether the entity exercising ownership rights exercised such 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 focus of mediaattention, which is also influenced by the size of the assets under their financial management (owned directly or indirectly by the state or local governments, and thus, ultimately forming part of national assets), as well as the quality and efficiency of the public services provided by such organizations.

Our audits explore whether proprietary supervision contributed to regular financial management and task performance. As a result of the audit, the risks of the organizations influencing budget deficit can be identified and the mitigation of such risks becomes possible. The utilisation of the audit recommendations 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 presentation and dissemination of solutions to be followed.

The audit is carried out based on the risk assessment of the specific organization, taking into consideration unique and material characteristics via the module(s) selected for the audit, with the following highlights:

- financial monitoring: evaluation of the financial management and the sustainability of the operation of business organizations, and the assessment of risks resulting from changes in liabilities and their impacts on management.
- financial management: evaluates financial balance and financial processes, as well as the regularity of the accounting of revenues and expenditures
- significant investments: evaluates the preparation of investment projects implemented by using central budget funds
- performance audit: evaluates and measures the effectiveness of economic and managerial performance
- exercise of proprietary rights: evaluates whether the entity exercising ownership rights has exercised such rights over its business organizations in a compliant manner.

Topic No.: 38/3

Type of audit: compliance and performance audit

**AUDIT OF NATIONALLY OWNED BUSINESS ORGANIZATIONS
(phase three)**

Purpose of audit: to assess how a company ensured the transparency of its financial management, its accountability, and the preservation, protection and management of the value of national assets. The SAO also assesses how owners have exercised their ownership rights and fulfilled their 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 focus of media attention, which is also influenced by the size of the assets under their financial management (owned directly or indirectly by the state or local governments, and thus, ultimately forming part of national assets), as well as the quality and efficiency of the public services provided by such organizations.

Our audits reveal how proprietary supervision has contributed to the regularity of financial management and task performance. As a result of the audit, the risks of the organizations influencing budget deficit can be identified and the mitigation of such risks becomes possible. By presenting good practices, the SAO will contribute to the presentation and dissemination of solutions to be followed.

The audit is carried out based on the risk assessment of the specific organization, taking into consideration unique and material characteristics via the module(s) selected for the audit, with the following highlights:

- financial monitoring: evaluation of the financial management and the sustainability of the operation of business organizations, and the assessment of risks resulting from changes in liabilities and their impacts on management.
- financial management: evaluates financial balance and financial processes, as well as the regularity of the accounting of revenues and expenditures
- significant investments: evaluates the preparation of investment projects implemented by using central budget funds
- performance audit: evaluates and measures the effectiveness of economic and managerial performance
- exercise of ownership rights: evaluates the exercise of ownership rights over the business organizations
- asset management: evaluates the company's asset management, the protection of its assets, the preservation of their value and status, and the risks jeopardising the preservation of assets.

Type of audit: compliance audit

**MONITORING AUDIT OF THE INTEGRITY OF BUSINESS ORGANIZATIONS IN
MAJORITY STATE OR MUNICIPAL OWNERSHIP
(phase two)**

Purpose of 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 risky processes and areas.

Justification of the audit and expected results: In recent years, the State Audit Office of Hungary has also conducted an integrity survey among publicly owned companies, the results of which show that there are quite significant differences between the specific business organizations 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 organizations. The Fundamental Law defines basic values and principles, according to which organizations 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 the purity of public life.

The monitoring audits on the material areas of the integrity-based operation of business organizations, focusing on the key documents of the present stage, promote the establishment of integrity controls and thus the earliest possible improvement of public finances with real-time evaluation and recommendations for the future. With the help of monitoring audits, the SAO can evaluate the integrity control/integrity risk management system of business organizations in municipal/state ownership covering a large number of auditees simultaneously.

The audit of the SAO contributes to the improvement of the level of establishment and operation of the integrity controls of business organizations 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.: 39/2

Type of audit: compliance audit

**MONITORING AUDIT OF THE INTEGRITY OF BUSINESS ORGANIZATIONS IN
MAJORITY STATE OR MUNICIPAL OWNERSHIP
(phase three)**

Purpose of audit: to assess the extent to which audited organizations have defined the values, principles and objectives that ensure the unity of organizational culture in relation to the performance of their tasks, and how they have assessed the integrity risks affecting the fulfilment of these objectives during their operation; the extent to which they have developed and operated an integrity management / integrity risk management system, including the extent to which they have developed integrity controls to mitigate integrity risks, and the extent to which these controls have covered risky processes and areas.

Justification of the audit and expected results: In recent years, the SAO has also conducted an integrity survey among publicly owned companies, the results of which show that there are significant differences between companies in the extent to which integrity controls are developed and in terms of the set-up of a basic regulatory environment needed to ensure transparent and corruption-free financial management. The Fundamental Law defines basic values and principles, according to which organizations 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.

The monitoring audits on the material areas of the integrity-based operation of business organizations, focusing on the key documents of the present stage, promote the establishment of integrity controls and thus the earliest possible improvement of public finances with real-time evaluation and recommendations for the future. With the help of monitoring audits, the SAO can evaluate the integrity control/integrity risk management system of business organizations in municipal/state ownership covering a large number of auditees simultaneously.

The audit of the SAO contributes to the improvement of the level of establishment and operation of the integrity controls of business organizations 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 audit: compliance audit

**RISK-BASED AUDIT OF ASSETS OF NATIONALLY OWNED BUSINESS ORGANIZATIONS
(phase two)**

Purpose of audit: to assess whether the business organizations had approved accounting reports available, and 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 organizations 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 media attention, which is also influenced by the size of the assets under their financial management (owned directly or indirectly by the state or local governments, and thus, ultimately forming part of national assets), as well as the quality and efficiency of the public services provided by such organizations.

The audit carried out based on material documents covers the availability of approved accounting reports and their acceptance by the entity exercising ownership rights, as well as the evaluation of information available on the assets of the company based on the accounting reports. The scope of the audit may include auditing the regularity of additional material areas, based on risk indicators and depending on the risk assessment, until the date of commencement of the audit, taking into consideration the legal requirements and the public methodology published by the SAO.

The audit, based on a methodology of risk assessment, covers material areas in the asset management of business organizations 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 the extent to which the conditions for performance monitoring have been ensured by the specific companies.

Topic No.: 41

Type of audit: regularity audit

**MONITORING AUDIT OF ORGANIZATIONS SPECIFIED AS OTHER ENTITIES
IN THE ACCOUNTING ACT THAT ARE RECIPIENTS OF CENTRAL BUDGET
SUPPORT
(phase two)**

Purpose of audit: to assess how other entities (specified as such by the Accounting Act) have ensured the basic conditions for a transparent and accountable utilisation of public funds.

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. The 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 the central budget based on its statutory authority. It is an objective of the SAO to contribute to the transparent use of public funds by entities outside of public finances by means of auditing budget support and asset transfers granted to these organizations. The State Audit Office of Hungary, by fulfilling its legal obligation and strategic objective, audits the financial management of other entities as per the Accounting Act.

The audit covers the scope of other entities as per Section 3 (4) of the Accounting Act whose financial management, as well as obligation of reporting and bookkeeping are governed by other laws as well.

In the course of monitoring audits, the SAO is able to identify risks related to the accountability of the utilisation of funds by assessing a small number of selected relevant documents that fully cover the audited group. Carrying out audits “real-time”, the SAO can draw attention to the correction of errors and irregularities identified in the audited period, thereby improving public finances.

The audits, by means of information gathered on the financial management of other organizations and the regularity of their use of public funds allow the society to gain an objective insight into the financial management of these organizations. The assessments of the SAO will support the work of legislators in regulating the operation and financial management of entities. The formulated proposals and good practices will contribute to developing the basic financial management framework of these organizations, ensuring the transparent and accountable use of public funds.



STATE AUDIT OFFICE OF HUNGARY

H-1052 Budapest, Apáczai Cs. J. u. 10. | H-1364 Budapest 4. Pf. 54

TEL: +36 1 484 9100

e-mail: szamvevoszek@asz.hu

web: www.asz.hu | www.aszportal.hu