



ÁLLAMI
SZÁMVEVŐSZÉK

ANNUAL REPORT



to the National Assembly on the professional activities of the State Audit Office of Hungary and the operations and financial management of the institution in 2023





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B/8340

dr. László WINDISCH
President



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PRESIDENT'S FOREWORD

Dear National Assembly,

2023 was the first full year in which I was able to steer the work of the State Audit Office of Hungary (hereinafter: SAO) as its President. Therefore, it was exciting also for me to see how the SAO performed during the year. The data collected in this report illustrates the amount of work carried out, and the textual evaluations highlight the changes of emphasis and professional-methodological improvements that have enhanced the effectiveness of our activities and the quality of our audit reports and analyses.

The biggest challenge for the supreme financial and economic audit body of the National Assembly is that the scope of areas it should audit – essentially any organisation that uses public money or operates national assets – is much wider than its capacity to audit in a year. Subsequently, the President of the SAO, who has the power to determine the annual audit plan, is faced with the dilemma of either carrying out an in-depth audit of a small number of organisations, or auditing a relatively large number of organisations but being satisfied with establishing whether these organisations have – on paper – the most basic controls in place. As the new President of the SAO, none of the alternatives was acceptable for me, as none of them would result in the SAO's operation in a way that would meet the requirements that are expected of it. So, how can we break out of this 'false' dilemma?

According to the concept developed in the first months of my presidency, the solution is for SAO to develop its ability to have an insight into the processes of public spending, not only at the central budgetary bodies and local governments, but also in NGOs and companies that receive funding. Based on this insight, the State Audit Office of Hungary could select the areas and identify the issues where and along which it could carry out the most value-added audits. This insight is what we call supervision. The selection is primarily based on risk, that is where we see a risk of inappropriate (irregular, ineffective, impractical) use of public money, we could go there to check, as preventing the risk from occurring or preventing the repetition of errors already made is the greatest outcome of the audits.

What does this look like in practice? We live in a digital age, and the various state bodies have built up a number of databases containing data that are updated daily, monthly or annually. The first step was for the SAO to request and obtain access to these databases, as this is a statutory right. It then assessed their reliability and subsequently began to develop methods to monitor the processes from its own perspective, to identify the risks surrounding them and to select the organisations in the database whose data indicate a risk. This is called data-driven selection and audit.

'Supervisory nature', 'data-driven audit', 'risk-based selection' are new terms that the reader of the Report will often encounter. These are the key words that provide the breakthrough from the dilemma outlined. These will ensure that the selection of audit areas and topics is not performed flying blind, but that we concentrate our capacities on those audits that are expected to produce the most results.

I think it is important for citizens to see that the SAO is also doing something useful for them, that it is providing suggestions through its audits for the problems we encounter every day. The motto we chose was 'the subject of audit is lying on the streets', for example in the form of carelessly fixed manhole covers or tap water running down the road. Our first audits with this motivation show that, in addition to scientific selection methods, it is also advisable to follow this motto when choosing a topic, since a thorough audit of the causes of a seemingly minor 'disorder' can reveal serious systemic flaws. Fixing these flaws could save tens of thousands of people from daily frustrations.



dr. László WINDISCH
President

SUMMARY

By means of its audits and recommendations, advisory opinions, advice and analyses based on its audit experience, the State Audit Office of Hungary as the supreme financial and economic audit body of the National Assembly, supports the lawful, expedient, cost-effective, productive and efficient operation and financial management of organisations managing public funds and public assets, and audits the use of public finance grants. The aim of the SAO is to contribute to improving the quality of the performance of state functions. According to the Fundamental Law of Hungary, the State Audit Office of Hungary has general powers to audit the implementation of the central budget, the financial management of public finances, the use of resources from public funds and the management of national assets within the scope of its statutory functions, in accordance with the criteria of legality, expediency and effectiveness. The SAO's audit powers cover the entire area of the spending and utilisation of public funds and national assets.

In addition to performing its statutory tasks, the SAO selects audit topics in response to current issues and problems of importance for society, adapting to the changing circumstances. In its choice of audit topics, the SAO gives priority to sustainability, and draws attention to environmental protection and the sustainable use of resources.

The SAO determined its audit plan for 2023 taking into account budgetary and social impacts and risks; its plan contained audit topics that promote sustainable economic growth and create real value for Hungary.

Beyond delivering on its annual audit plan, it is important for the SAO to be able to respond to prevailing social issues and audit the spending of public funds as soon as possible in the context of the relevant decisions, transactions and economic events. As of 1 January 2023, the amendment of Act LXVI of 2011 on the State Audit Office of Hungary (hereinafter: Act on SAO) granted the SAO the right to carry out, at the decision of the President, audits not included in the audit plan, and inform the National Assembly about them in its annual report.

In 2023, the SAO fulfilled its statutory obligations and carried out the tasks set out in its annual audit plan. The SAO conducted 159 audits in 2023, covering a total of 2,834 audited organisations. Of these, 25 audits were carried over from 2022 (1,768 audited organisations) and 41 audits started in 2023 and were completed in 2023 (401 audited organisations). 93 audits started in 2023 and were still ongoing at the end of 2023 (665 audited organisations).

By the end of the year, the SAO issued and published on its website 66 reports on its audits completed in 2023. In 2023, the President of the SAO sent calls for action to 1,175 recipients, inviting them to take action in order to end the illegal practices and the misuse or wasteful use of assets identified during the audit. The audited organisations confirmed eliminating 65.7% of the infringements detected by the SAO before the audits were concluded.

In its reports, the SAO made 459 recommendations to a total of 142 recipients, on the basis of which the organisations concerned, with two exceptions, drew up and sent action plans to the SAO. With two exceptions, the SAO accepted the action plans sent, as the measures contained in them were in line with the findings of the audits and, in the SAO's opinion, they were appropriate to remedy the deficiencies found.

The SAO carried out follow-up audits of four action plans included in the SAO's previous reports to assess whether the organisations audited had implemented their action plans.

In 2023, the SAO referred one legal remedy procedure to the Public Procurement Arbitration Board (hereinafter: PPAB) in relation to the public procurement irregularities detected during the audits, in the framework of which the PPAB confirmed the public procurement irregularity in its decision and decided to impose a fine on the organisation audited by the SAO. The SAO filed four reports with the investigative authorities concerning suspected criminal offences identified during its audits. Each report recorded suspicions of several criminal offences. The competent investigative authorities have opened proceedings in all the cases, but the proceedings are still ongoing.

In 2023, in fulfilment of its statutory obligation, the SAO supported the work of the National Assembly by providing an opinion on the Bill on the 2024 Central Budget of Hungary. With its analyses, the SAO also contributed directly to the work of the Fiscal Council (hereinafter: FC).

The SAO continued to play an active role in the international SAI community in 2023. The SAO is a member of the International Organisation of Supreme Audit Institutions (hereinafter: INTOSAI), where it has participated in a number of committees, subcommittees and working groups. The SAO took an active role in the joint efforts of several working groups of the European Organisation of Supreme Audit Institutions (hereinafter: EUROSAI), and in several project groups.

In 2023, the SAO's President, Vice-Presidents and auditors participated in several international bilateral and multilateral meetings, where, in addition to liaising with their professional counterparts, they discussed experiences and methodologies of audit and analysis.

In 2023, the SAO continued the organisational renewal it had started in the second half of 2022, involving organisational and personnel changes, the formulation of new audit principles and methodological innovations and the further improvement of the conditions for quality assurance in our operations. Within this framework, the work of the SAO's organisational units responsible for audits and the achievement of the strategic objectives are supported by sectoral and analytical competence centres.

In 2023, the SAO continued the methodological renewal it had started in 2022; the first audit rules to be updated were the principles governing the SAO's operations. This methodological renewal continues with the revision of the SAO's auditing principles, and the modification of the methodologies supporting the implementation of audits, taking into account the relevant legal regulations and international standards. In consultation with the Public Procurement Authority (hereinafter: PPA), the SAO prepared a dedicated methodology for the audit of public procurements and revised the methodological guide for the analyses underpinning its opinion on the Bill on the Central Budget of Hungary for 2024.

The SAO operates a process-based quality assurance system to ensure that its audit findings, conclusions and recommendations are sound, documented and the quality of its reports is high, and has also embedded in its workflows quality assurance focused on legality considerations.

The SAO operates a risk analysis system taking advantage of the toolkit offered by digitalisation, which provides the SAO with the possibility to select and audit topics and audited entities on the basis of risk.

The SAO drew up its budget implementation report as at 31 December 2023, which, in the independent auditor's opinion, gives a true and fair view of the implementation of the budget for the year 2023, the financial position of the SAO and the results of its financial management.

In compliance with its statutory obligation, the SAO prepared its annual report to the National Assembly, in which it provides information on the audit activities, operations and financial management of the organisation

in 2023, as well as on the measures taken on the basis of audit findings, and an insight into its activities carried out in the first quarter of 2024.

On 21 December 2023, the President of the SAO informed the National Assembly of the SAO's audit plan for 2024, which includes audit topics in the areas of sustainability, finance, health, education, vulnerable groups and socially handicapped individuals.



THE 2023 ACTIVITIES OF THE SAO IN FIGURES

AUDITS, ANALYSES



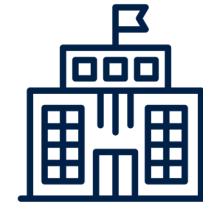
159

Number of audits carried out in 2023



66

Number of reports published



2834

Number of audited organisations



13

Number of analyses



459

Number of recommendations



1175

Number of call for action recipients



4

Number of notifications to the authorities



1

Number of Public Procurement Arbitration Board decisions



381

Number of whistleblowing reports and complaints handled

PUBLICATIONS



604

Articles in print
media



2572

Articles in online
media



743

Radio and TV
appearances



34

News and press
releases

ADVISORY ACTIVITY



3

Number of
new self-tests



492

Downloads of
self-tests



Series of awareness-
raising consultations

3

locations

50-60 people



1

Advisory opinion
(ongoing)

THE PROFESSIONAL ACTIVITIES OF THE SAO

Audit activity

Value of public funds and public property audited

Areas benefitting from the activities of the SAO

Audit experience

Conclusions from analysis

AUDIT ACTIVITY

Pursuant to Article 3(2) of the Act on SAO, the SAO continued to carry out its activities in 2023 on the basis of its audit plan, as approved by the President and submitted to the National Assembly; in addition to its periodic (annual, biannual) audits and the event-triggered audits, the audit plan also included a large number of audit tasks to be carried out based on the statutory powers of the SAO. From 1 January 2023, following the amendment of the Act on SAO, the SAO may, at the decision of the President, carry out audits not included in the audit plan, and inform the National Assembly about them in its annual report.

Table 1: Breakdown by audit type of audits completed in 2023 (number)

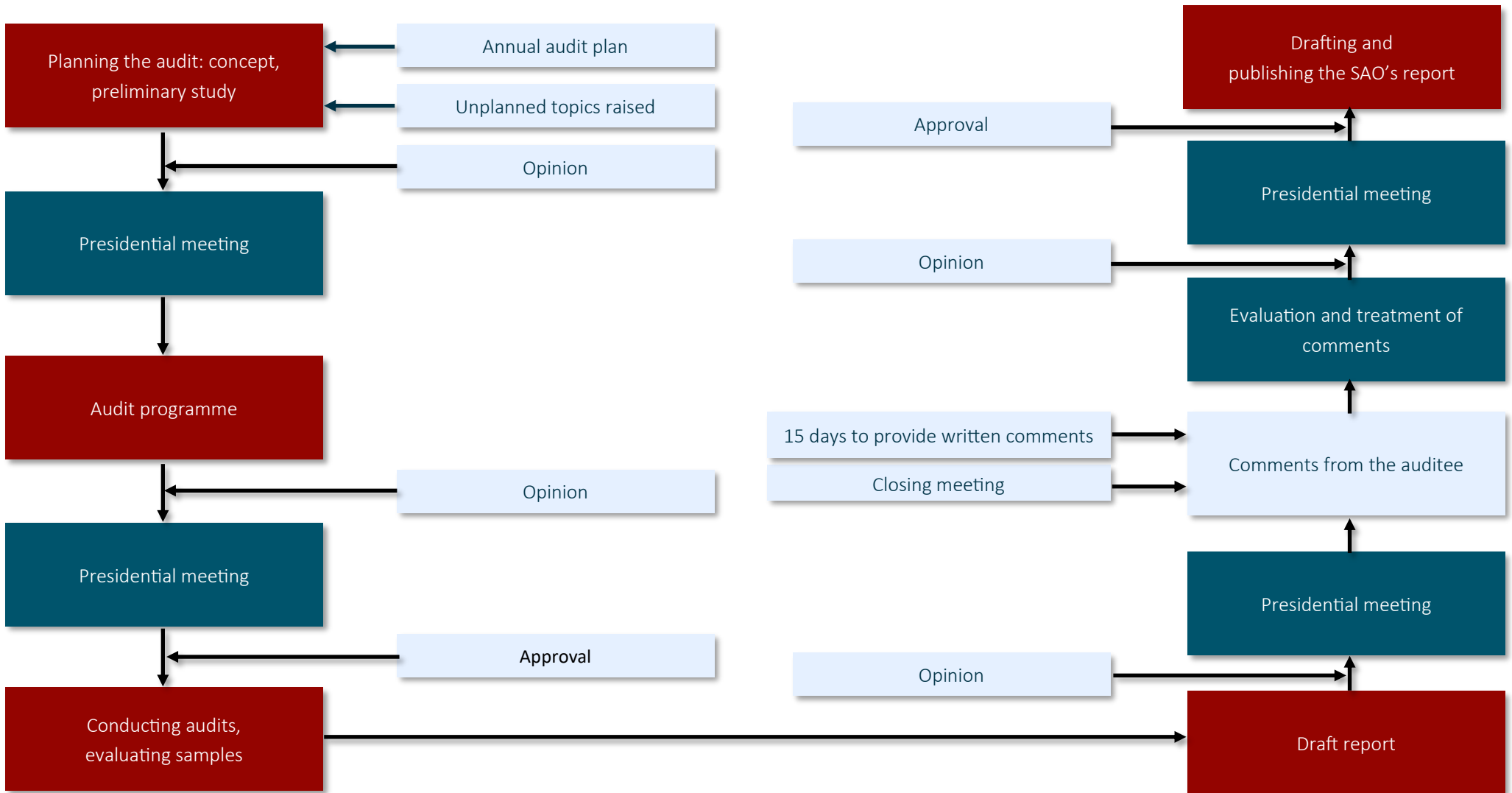
TYPE OF AUDIT	NUMBER OF AUDITS	NUMBER OF AUDITED ORGANISATIONS
Compliance audits	41	1815
Regularity audits	21	317
Compliance and performance audits	1	15
Performance audits	1	22
Opinion/assessment	2	-
TOTAL	66	2169

AUDITS COMPLETED

The SAO closed 66 audits in 2023, covering 2,169 audited organisations. Table 1 shows the number of audits completed by the SAO in 2023 by type of audit.

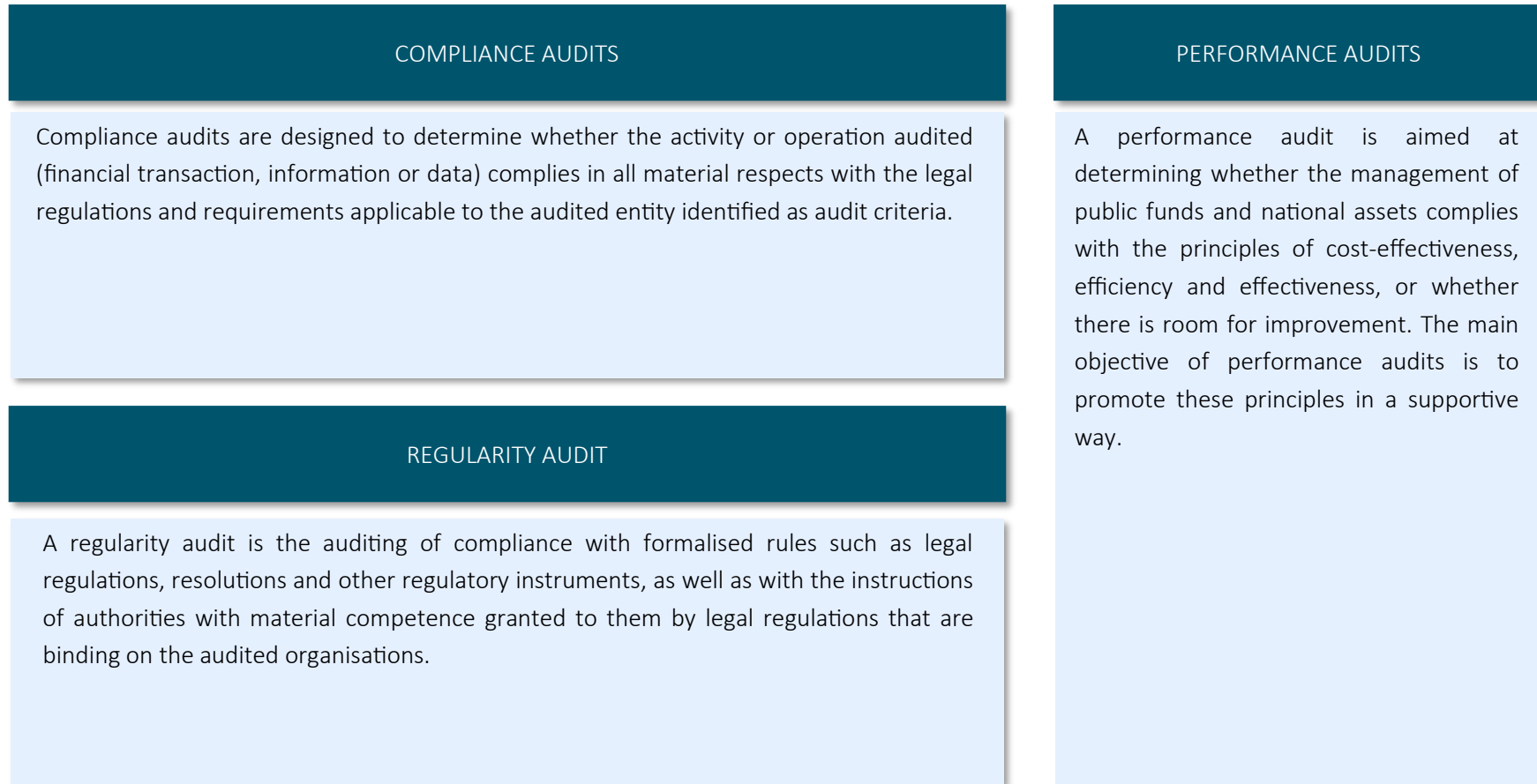
Of the 66 audits, 62.2% were compliance audits, 31.8% were regularity audits, 1.5% were compliance and performance audits, while a further 1.5% were performance audits. The remaining 3.0% comprised of the opinion on the bill on the central budget and the evaluation of NGOs carrying out activities capable of influencing public life.

Chart 1: The audit process of the SAO



The process and the implementation of the SAO’s audits are governed by the Act on SAO and its internal rules, which set out the tasks and responsibilities of the SAO and the controls built into the audit process. These internal rules and built-in control points contribute to the transparency of the implementation of the audits and support the technical substantiation of the findings in the SAO’s reports.

Chart 2: Types of audits carried out by the SAO



COMPLIANCE AUDITS

Fulfilling its statutory obligation to conduct annual audits, the SAO audited the implementation of the 2022 central budget, assessing the reliability of the revenue and expenditure data of the central sub-sector as a whole and auditing compliance with the requirements on the deficit and public debt. The SAO also followed up on the actions undertaken to correct the irregularities and deficiencies contained in the calls for action sent out following its audit of the 2020 final accounts. The audit of the final accounts covered 118 audited organisations and the follow-up of the implementation of the measures contained in the replies to the calls for action covered 23 audited organisations.

Pursuant to Article 6(2) of Act CXLIX of 2021 on the Implementation of the 2020 Unified Budget of the National Media and Infocommunications Authority (hereinafter: Act CXLIX of 2021), the SAO audited the use of funds granted to the Media Service Support and Asset Management Fund (hereinafter: MTVA) for the performance of public service tasks. The audit was carried over from 2022 and covered two audited organisations.

In fulfilling its statutory annual audit obligation, the SAO reviewed the Municipal Decree on the distribution of revenues to be shared between the Municipality of Budapest and the local governments of the districts in 2023 and audited the regularity of the sharing of revenues and the determination and accounting of expenditures related to local taxation. The audit covered the Budapest-Capital Municipality and the Office of the Mayor of Budapest.

The SAO carried out compliance audits of the following:

- the implementation of mid-level governance tasks by the National Police Headquarters (hereinafter: Police Headquarters),
- EU support from the Brexit Adjustment Reserve, auditing the two audited bodies managing the grants,
- the appropriateness of charging expenses to staff remuneration, and the material and capital expenditures of five central budgetary entities,

- the local taxation activities of six local governments,
- the payment and accounting of the cash flow expenditures of 20 local governments,
- the local business tax operations of 20 local governments, in an audit carried over from 2022,
- the integrity of 1,574 business organisations in majority state or local government ownership, which was a carry-over audit from 2022,
- changes in the financial situation of the Gárdonyi Géza Theatre, with three audited entities,
- the real estate utilisation activities of five local governments and central budgetary entities,
- the substantive liabilities of four majority-owned business organisations relating to state-owned assets,
- the controlling systems of two state-owned business organisations,
- the management of the trade receivables portfolio of five business organisations in majority state ownership,
- the control activities built into the process of adopting the 2022 accounts of six state-owned business organisations,
- the compliance of 10 organisations exercising ownership rights over state assets or state-owned business organisations with their electronic disclosure obligations,
- the cost-cutting measures of six state-owned business organisations, and
- water protection and water management tasks at the Hungarian Energy and Public Utility Regulatory Authority (hereinafter: MEKH), which was a carry-over audit from 2022.

REGULARITY AUDITS

Fulfilling its statutory obligation, the SAO audited performance of eight organisations of their functions related to the exercise of ownership rights over state assets in 2021, in an audit carried over from 2022.

Fulfilling its biennial audit obligation, the SAO audited the legality of the fiscal management of four parties and four party foundations in the years 2020–2021, and the accounting of funds for the 2022 parliamentary election campaign by 118 individual candidates; these were also audits carried over from 2022.

In another audit carried over from 2022, the SAO audited 72 organisations concerning the regularity of their use of funds in the 2022 parliamentary elections and national referendum, which were carried out in a joint procedure.

The SAO audited the accounting records of 99 associations and foundations receiving public finance grants, and the utilisation of the grants received by 12 sports clubs for the purchase of equipment.

PERFORMANCE AUDITS

The SAO conducted performance audits of the fire prevention functions of the disaster management services in 22 disaster management organisations.

In combined performance and compliance audits, the SAO audited the data collection and processing systems of five members of the official statistical service and ten organisations providing statistical services and managing administrative data sources; this was a carry-over audit from 2022.

OPINION/ASSESSMENT

The SAO supported the National Assembly in making informed decisions on the Bill on the 2024 Central Budget of Hungary by providing its opinion on the Bill.

Pursuant to Article 2 of Act XLIX of 2021 on the Transparency of Non-Governmental Organisations Conducting Activities Capable of Influencing Public Life (hereinafter: Act XLIX of 2021), the SAO prepared and published its annual summary evaluation report on NGOs engaged in activities that are capable of influencing public life.

AUDITS IN PROGRESS AT THE END OF 2023 AND CARRIED OVER INTO 2024

As of 31 December 2023, a total of 93 audits were in progress at 665 sites, as is detailed in Table 2; of these, 61.2% were compliance audits, 25.8% were regularity audits, 6.5% were performance audits and 6.5% were compliance and performance audits.

Table 2: Audits in progress at the end of 2023 and organisations concerned (number)

TYPE OF AUDIT	NUMBER OF AUDITS IN PROGRESS	NUMBER OF ORGANISATIONS CONCERNED
Compliance audits	57	279
Regularity audits	24	270
Compliance and performance audits	6	12
Performance audits	6	104
TOTAL	93	665

More than half of the audits in progress on 31 December 2023 were in the report writing or publication stage.

16 of the audits carried over into 2024 were completed in the first quarter of 2024.

In the 13 targeted audits carried over into 2024, 130 audited budgetary entities in **the central sub-sector of public finances** were subject to **ongoing audits of the regularity of material and capital expenditures**. Four audits were completed, covering for 40 out of the 130 budgetary entities audited, and the SAO published the results of these audits on 23 February 2024.

The SAO conducted three audits of the financial management practices and regulations of 22 **national minority self-governments**, the state funding received, and the use of assets allocated free of charge from the state budget for specific purposes in the period between 2020 and the first quarter of 2023. The audit of the **National Self-Government of Rusyns** has been completed and the audit report was published by the SAO on 29 January 2024.

The SAO audited the **energy efficiency measures** of six local governments and municipal offices in the framework of audits carried over into 2024; in its audit of **investment projects of the Local Government of the Village of Zebegény**, it audited the local government and municipal office **in connection with the procurement practices concerning design contracts**. The audit of **the energy efficiency measures of the Local Government of Nyíregyháza, City with County Rights**, and the targeted **audit of the investments of the Village of Zebegény** were completed, and the SAO published the reports on 23 February 2024 and 7 February 2024, respectively.

Concerning the years 2021–2022, the SAO audited the operation and financial management of **one city with county rights** and **one district of the capital city** in an audit carried over into 2024. The audit of the operation and financial management of **the District 12 Hegyvidék Local Government in Budapest** was completed, and the SAO published its report on 23 January 2024.

The audit of the budget and the final accounts of the Budapest-Capital Municipality for the period from 2020 to the first half of 2023, which has been carried over into 2024, concerned the Municipality and the Office of the Mayor and covered the planning, amendment and proper implementation of the budget of the Municipality and its budgetary entities, and their duties related to the final accounts. The audit was completed, and the SAO published its report on 23 February 2024.

For the years 2019–2022, the SAO audited the real estate management and utilisation activities of two local governments managing national assets. The audit of the Local Government of Budafok-Tétény, the 22nd District of Budapest, was completed and the SAO published its report on 23 February 2024.

In its audit of the implementation of the Land Policy Guidelines, the SAO assessed whether the annual plan prepared by the National Land Centre (hereinafter: NLC) was in line with the medium-term strategic plan for the utilisation of the land parcels of the National Land Fund and the Land Policy Guidelines; whether the NLC monitored the implementation of the annual plan, and whether the asset registration system was compliant with the legal regulations and the internal rules and ensured the reliability of the data it contained. The audit was completed, and the SAO published its report on 19 March 2024.

The SAO audited 12 associations and foundations to examine the regularity of their accounting records of the public finance grants received. The audit report was published by the SAO on 23 January 2024.

In its audit of residential social care for the elderly, which was carried over into 2024, the SAO audited the Ministry of the Interior (hereinafter: MoI), the Directorate General for Social Affairs and Child Protection and nine welfare institutions for the period 2018–2022 in order to verify how the governing body, the state proprietary body and the care institutions contributed to the welfare and security of the elderly and the effective and efficient operation of residential institutions providing care or nursing

services to the elderly. The audit also covered the effectiveness, economy, and efficiency requirements in the provision of residential and nursing care for the elderly. The audit report was published by the SAO on 6 March 2024.

In the framework of an international cooperative performance audit, the SAO audited 44 organisations to examine the sustainability of domestic water management and the adequacy of the strategies defining water management in the years 2017–2022. In the audit, the SAO assessed whether the National Water Strategy and the sectoral and local strategies, programmes and action plans provided an adequate basis for the implementation of the national and international objectives for drinking water management, and whether the establishment of the conditions for the protection of drinking water (the financial, legal, organisational and human resources) effectively and efficiently supported the achievement of the objectives of the National Water Strategy. The SAO published its audit report on 6 February 2024.

At the end of 2023, the audit of the use of campaign funds used in the 2022 parliamentary elections was in progress at 11 nominating organisations, on which the partial reports were published by the SAO on 20 February 2024. The purpose of the audit was to determine whether the parties that obtained at least 1% of the total valid votes cast on the party lists and the national minority self-government that was represented in the parliamentary elections complied with the provisions of Act LXXXVII of 2013 on the Transparency of Campaign Costs in the Election of Members of the National Assembly (hereinafter: Campaign Financing Act). Furthermore, the audit assessed whether the use of state and other funds used for the election campaign was in accordance with the principles set out in Act XXXVI of 2013 on Election Procedure (hereinafter: Election Procedure Act), ensuring the fairness of the election procedure, equal opportunities and the principle of good faith and the proper exercise of rights.

The audit of the official activities of the employment inspectorate carried over into 2024; in this audit, the SAO assessed the professional oversight activities of the employment authority, and the design and delivery of the activities by auditing the minister responsible for employment policy and the employment inspectorates. The audit was in the 15-day consultation phase in the first quarter of 2024.

In its **audit**, carried over into 2024, **of the activities of the National Tax and Customs Administration** (hereinafter: NTCA) **concerning fees**, the SAO assesses the regularity of the NTCA's activities, and the availability and operation of internal controls ensuring the performance of its duties in the years 2021 and 2022. The audit was at the stage of preparing the SAO's report in the first quarter of 2024.

The **audit of flood and inland water protection and the related tasks and measures** was still in the preparatory phase at the end of 2023 and was carried over into 2024.

In its **audit of the regional development functions of the regional governments**, which was carried over into 2024, the SAO is auditing the years 2022–2023 at five county local governments and offices, five county agencies and one foundation; the audit focuses on their regional development, coordination, and planning functions. The audits were at the stage of preparing the SAO's report in the first quarter of 2024.

In its **audit**, carried over into 2024, **of activities relating to the exercise of ownership rights in state assets in 2022**, the SAO is auditing whether the exercise of ownership rights over state assets by these entities complied with the requirements of the relevant legislation. The preparations for the audit were completed in 2023.

In its audit of **the sale of state-owned assets**, carried over into 2024, the SAO is auditing the appropriateness of the sale of state-owned assets and the preparation and appropriateness of the relevant decisions at the **Hungarian National Asset Management Inc.** (hereinafter: HNAM Inc.).

The audit was at the stage of preparing the SAO's report in the first quarter of 2024.

In an **audit** carried over into 2024, the SAO is auditing **the regularity of the operations of Magyar Nemzeti Bank** (the National Bank of Hungary, hereinafter: MNB), and, with regard to the MNB's non-core activities and management, how the MNB ensured regularity in its governance, decision-making and control systems, its financial management, its role as supervisor, controller and regulator of the financial intermediary system, and its duties as resolution authority. The audit was at the stage of preparing the auditor's report in the first quarter of 2024.

According to the provisions of Article 10(3) of Act XXXIII of 1989 on the Operation and Financial Management of Political Parties (hereinafter: Act on Political Parties), the SAO audits every two years the financial management of parties that have received regular subsidies from the central budget. The **audit**, which has carried over into 2024, examines the **legality of the 2021–2022 financial management of five parties receiving state funding**, which includes an assessment of the compliance of the published annual financial statements with the legal requirements, the compliance of the accounting and management with the relevant legal regulations and internal rules and the use of resources properly used for their operations. The audit was at the stage of preparing the auditor's report in the first quarter of 2024.

Pursuant to Article 4(4) of Act XLVII of 2003 on Foundations Pursuing Scientific, Knowledge-Sharing, Research, or Educational Activities to Support the Operation of Political Parties (hereinafter: Act on Foundations Supporting the Operation of Parties), the SAO audits the financial management of party foundations that receive state funding every two years on a mandatory basis. In its **audit**, which carried over into 2024, **the SAO examined the legality of the financial management of the five party foundations receiving state funding** in the years 2021–2022, the regularity of their annual accounting statements and annual activity reports, as well

as the compliance of their accounting and financial management processes with the legal requirements. The audit was at the stage of preparing the auditor's report in the first quarter of 2024.

In its **audit of the financial management of the Pallas Athéné Domus Meriti Foundation** established by the MNB, the SAO assessed whether the Foundation recorded, preserved, used and utilised the assets allocated to it in accordance with the legal requirements, and whether the Foundation established and operated a regulatory framework for its financial management. The SAO's audit also covered the regularity and transparency of the disbursement and recording of grants awarded during the implementation of the Foundation's calls for proposals. The audit, which carried over into 2024, was at the stage of preparing the auditor's report in the first quarter of 2024.



VALUE OF PUBLIC FUNDS AND PUBLIC PROPERTY AUDITED

The amount of public funds and public assets included in the audits completed by the SAO in 2023 is shown in Charts 3 and 4 for the central and the local government sub-sectors and the organisations outside public finances. However, in the case of some audits, such as those on the protection of water and the performance of water management tasks, the

fire prevention tasks of the disaster management services, the data collection and processing system, the verification of the fulfilment of essential obligations related to state-owned assets and the electronic publication obligations of state-owned business organisations, this cannot be quantified due to the nature of the areas audited.

Chart 3: Sum total of public funds and public property audited, by area audited

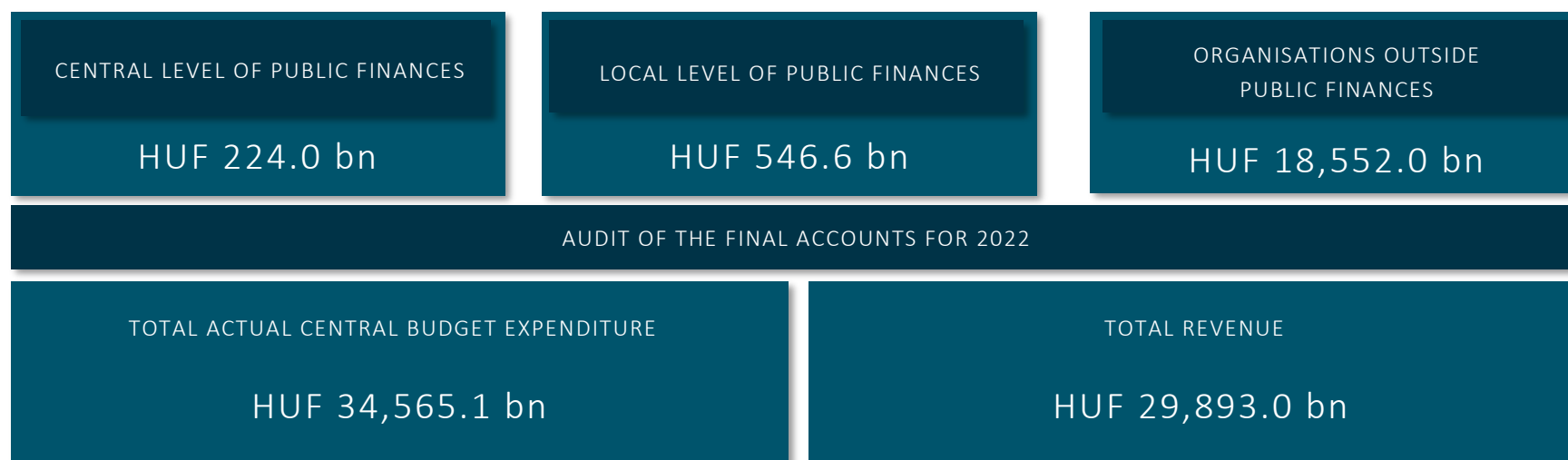
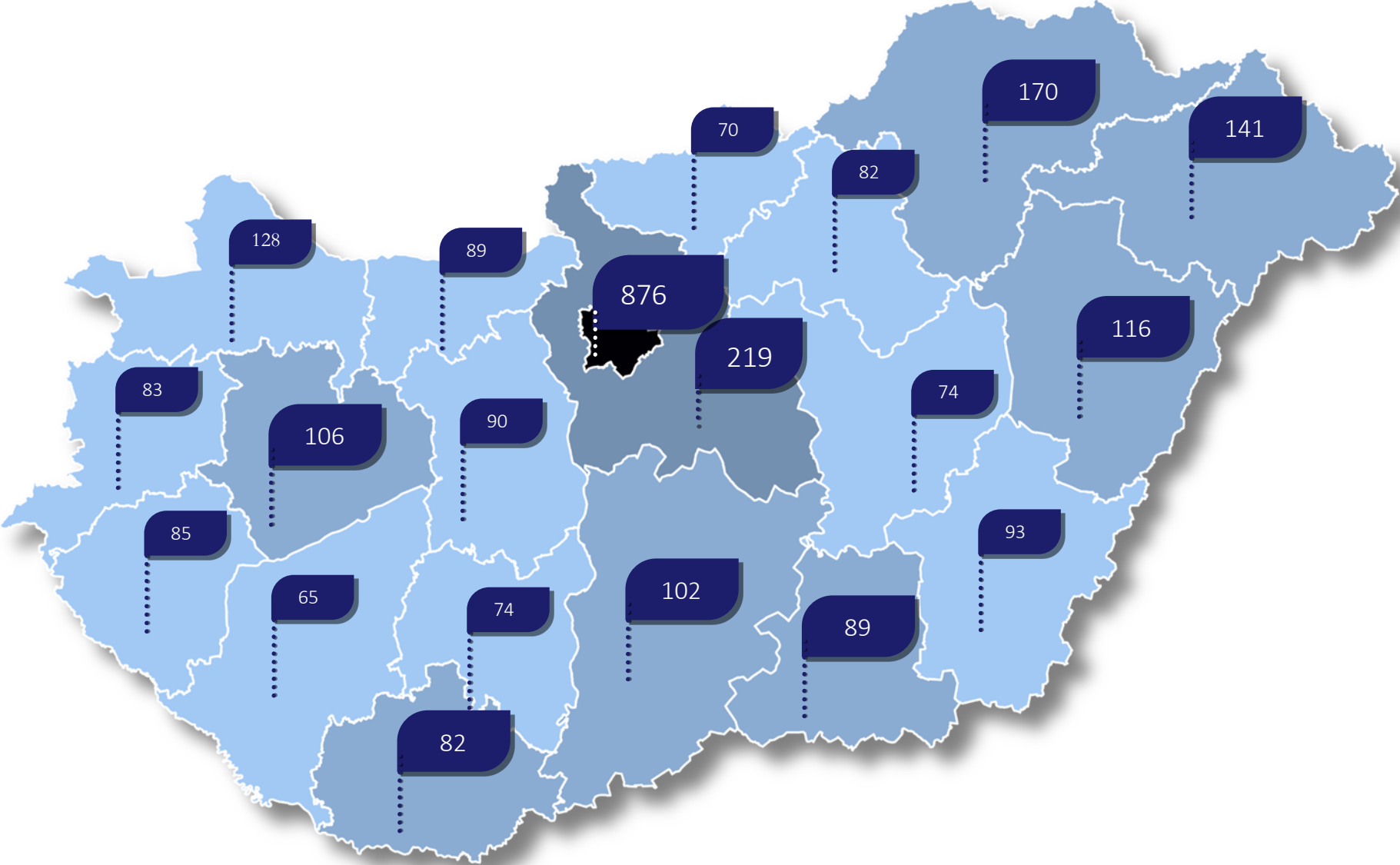


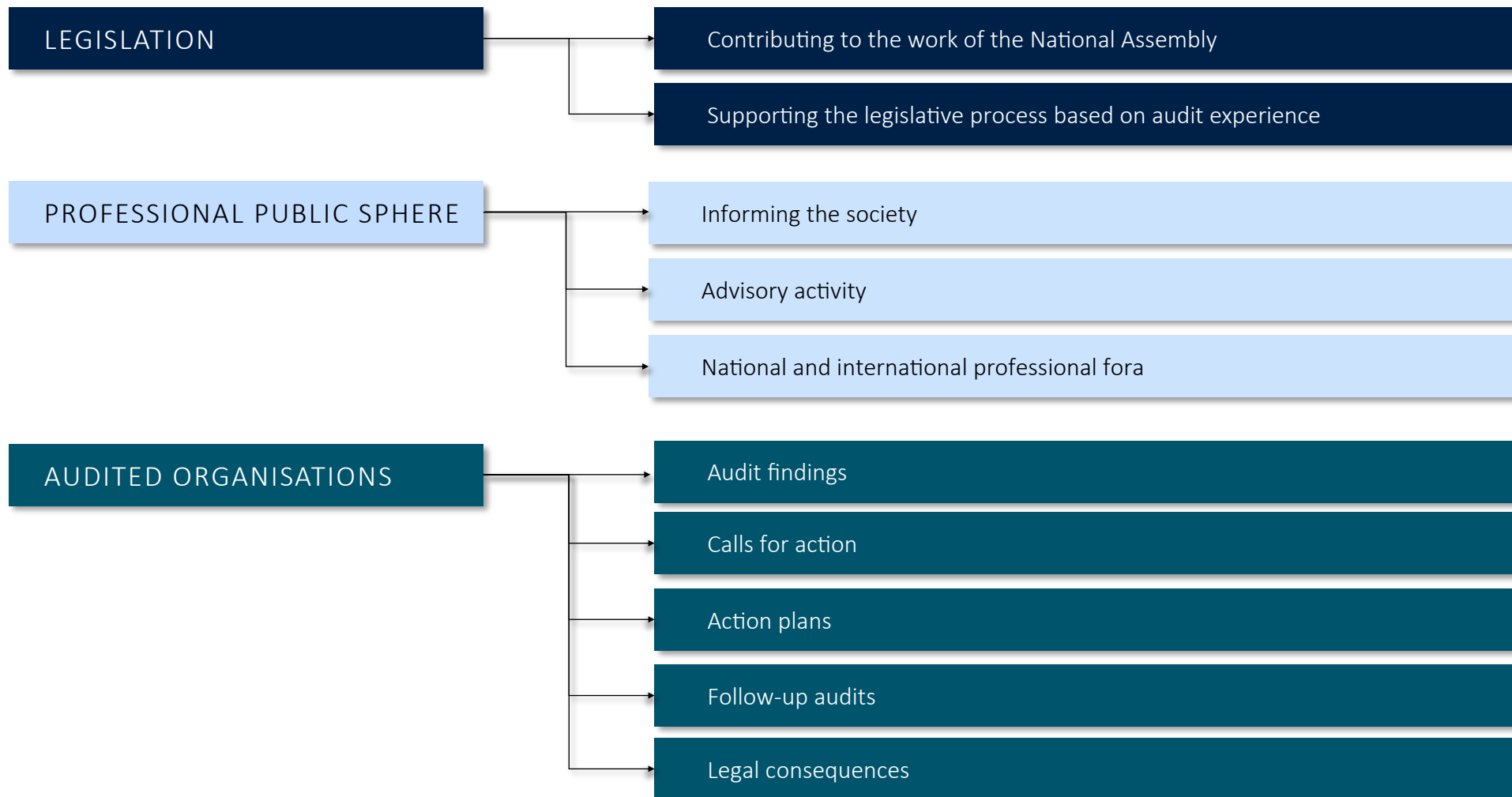
Chart 4: Sum total of public funds and public property audited, presented in a breakdown by area audited

CENTRAL LEVEL OF PUBLIC FINANCES	
Audit of staff, material and capital expenditures of central budgetary entities, the total expenditures of the auditees	HUF 31.5 bn
Audit of the financial management of central budgetary entities and their performance of mid-level governance functions; the interim adjusted expenditure appropriations of the auditees	HUF 169.6 bn
Audit of EU support from the Brexit Adjustment Reserve	HUF 22.9 bn
ORGANISATIONS OUTSIDE PUBLIC FINANCES	
Audit of the legality of the financial management of political parties and party foundations; total state funding in the period audited	HUF 5.3 bn
Audit of the use of corporate tax subsidies received by sports clubs for the purchase of equipment; the amount of corporate tax subsidy	HUF 101.9 mn
Audit of campaign funds to individual candidates; amount of funds concerned	HUF 139.6 mn
Audit of the accounting records of public finance grants of associations and foundations; amount of state funding	HUF 12.7 bn
Audit of the use of funds spent on the 2022 parliamentary elections and national referendum in a joint procedure; amount of audited expenditures	HUF 13.1 bn
Audit of the Media Service Support and Asset Management Fund; amount of budget revenues audited	HUF 108.9 bn
Audit of state-owned companies; balance sheet total of the entities concerned	HUF 162.1 bn
Audit of the controlling systems of state-owned companies; sales revenues of the companies concerned	HUF 73.2 bn
Audit of organisations exercising ownership rights over state assets; sum total of fixed assets included in national assets	HUF 18,176.5 bn
LOCAL LEVEL OF PUBLIC FINANCES	
Audit of the accounting for payments of cash-flow expenditures of local governments; sum total of audit sample items	HUF 308.1 mn
Audit of companies majority-owned by local governments; total balance sheet of the audited entities	HUF 7.6 bn
Audit of resource sharing decrees; sum total of total revenues shared	HUF 468.5 bn
Audit of activities relating to local business tax (HIPA); total HIPA revenues of the audited local governments in the audited period	HUF 55.4 bn
Audit of the real estate management activities of local governments; the 2022 sum total of tangible assets of audited organisations	HUF 13.6 bn
Audit of the local taxation activities of local governments, including building taxation operations; revenues from building tax audited	HUF 111 mn
Audit of the financial situation of theatres; audited governing body's grants	HUF 1.1 bn

Chart 5: Number of organisations audited in 2023, by geographical area and by county



AREAS BENEFITTING FROM THE ACTIVITIES OF THE SAO



BENEFITS FOR LEGISLATION

In accordance with the legal regulations, in 2023 the SAO continued to participate in the drafting of legislation concerning its legal status and responsibilities, as well as the operational and accounting rules of public finances. The President of the SAO co-chaired the consultative, opinion-forming, proposal-making and interest-reconciliation forum, which prepared the Government's decisions on deregulation, and contributed to the simplification of the regulations governing the functioning of the State.

The legislature constitutes the highest level benefitting from the outcomes of the SAO's tasks provided for in the Fundamental Law.

OPINIONS ON LEGAL REGULATIONS, PROPOSALS FOR AMENDMENTS

In the framework of the public administration consultation process, the SAO sent its opinion to the drafter of five pieces of legislation in 2023, which concerned the legal status and responsibilities of the SAO and the operational and accounting rules of public finances.

In 2023, the SAO forwarded its proposals for legislative amendments based on its audit experience to the drafters of legal regulations in four cases, three of which were already implemented in 2023, as follows:

- The SAO's right to audit the Investor Protection Fund (hereinafter: IPF) was guaranteed by Article 227(3) of Act CXX of 2001 on the Capital Market (hereinafter: Capital Market Act) in force until 1 July 2011, but this was repealed by Article 38(2)(e) of the Act on SAO. Pursuant to Article 5 (4)(a) of the Act on SAO, the SAO may audit the IPF's compliance with the rules on the encumbrance of public assets in its audits of the management of national assets and, accordingly, it may audit the legality

of the state guarantees provided for the borrowing and bond issuance of the Investor Protection Fund, but its audits shall not cover the financial management of the IPF.

The SAO initiated an amendment of the Capital Market Act to the Ministry of Justice (hereinafter: MoJ) to allow for the same audit approach for the IPF as it uses with the Loss Adjustment Fund; this proposal was supported by the Ministry of Economic Development (hereinafter: MoED). The Capital Market Act has been amended and, according to Article 227 (3) of the Capital Market Act, effective from 1 January 2024, the financial-accounting auditing of the IPF is carried out by the SAO.

- Pursuant to Article 159(3)(d) and Article 161(2)(a) of Act CCXXXVII of 2013 on Credit Institutions and Financial Enterprises (hereinafter: Act on Credit Institutions), the SAO is entitled to obtain access to business and banking secrets within the limits of the legal regulations. Pursuant to the provisions of Article 58(2)(c) of Act CCXXXV of 2013 on Payment Service Providers (hereinafter: Payment Service Providers Act), the SAO is entitled to access business secrets in the performance of its duties, but the confidentiality provisions of the Payment Service Providers Act do not entitle it to access payment secrets. The definitions of banking secret in Article 160(1) of the Act on Credit Institutions and of payment secrets in Article 59(1) of the Payment Service Providers Act are substantively the same, with the difference that banking secrets apply to financial institutions, while payment secrets apply to payment service providers and electronic money institutions that are not credit institutions. In the light of this, the SAO proposed an amendment to the Payment Service Providers Act at the MoJ to the effect that the Payment Service Providers Act should specifically grant the SAO the right to access payment secrets, in a manner analogous to the Act on Credit Institutions. The wording of Article 60(2)(a) of the Act on Credit Institutions,

which entered into force on 1 January 2024, now names the SAO as a body entitled to access payment secrets.

- The SAO's audit of the regularity of the use of subsidies received by sports clubs for the purchase of equipment revealed that a club did not comply with its obligations to keep accounting and settlement records of the subsidies and the equipment purchased and to supply the related data. Pursuant to Article 31/A(1)(b) of the Act on SAO, if in its audit the SAO identifies any serious breach of the rules governing the management of funds, or a risk of such a breach, the President of the SAO may request the competent authority or organisation to suspend the payment of subsidies from the relevant public finance sub-sector in order to prevent or mitigate the damage. The corporate tax subsidy granted to sports clubs is a tax benefit for the support of spectator team sports pursuant to Article 22/C of Act LXXXI of 1996 on Corporate Tax and Dividend Tax (hereinafter: Corporate Tax Act). Taxpayers transfer the corporate tax subsidy directly to the separate payment account of the sports club and enjoy the tax benefit through the withholding of tax in accordance with Article 23(4) of the Corporate Tax Act. Considering that the taxpayers transferred the corporate tax subsidy directly to the payment account of the sports club, it was not possible to apply the asset preservation measure provided for in Article 31/A(1)(b) of the Act on SAO, as direct transfer makes it impossible to suspend any payment and enforce the legal instrument. To remedy this anomalous legal situation, the SAO requested an amendment of the relevant legal regulation from the Ministry of Defence (hereinafter: MoD), which supported the proposal, and consultation started between the MoD and the SAO on the necessary amendments.

In one other case, the SAO sent, based on its audit experience, a proposal for amendment to the drafter of Act XLIX of 2021 on the Transparency of Non-Governmental Organisations Conducting Activities Capable of Influencing Public Life, which set out the legal foundations for the audit activity. The SAO identified an anomaly in the concept of state funding in

its 2022 summary report on NGOs conducting activities capable of influencing public life and maintained this opinion in its 2023 summary report as well. With the amendment of Government Decree 479/2016 (XII.28.) on the specificities of the reporting and accounting obligations of certain other entities under the Accounting Act (hereinafter: Government Decree 479/2016 (XII.28.)), the legislator removed the anomaly identified by the SAO as of 1 January 2024. Article 14(2) of Government Decree 479/2016 (XII.28.), effective from 1 January 2024, clearly specifies which grants must be recognised by other organisations in their income statements and profit and loss accounts.

Members of the National Assembly submitted questions, requiring a response in writing, to the President of the SAO on three occasions in 2023; the President responded within the deadline in each case, in line with the Fundamental Law. The questions concerned the visit of a delegation of the European Parliament's Committee on Budgets to Hungary, the financial management of the Local Government of Debrecen, City with County Rights, and staff remuneration at the SAO.

THE ENTRY INTO FORCE OF THE SOVEREIGNTY PROTECTION ACT

The Election Procedure Act was amended by the Sovereignty Protection Act, which entered into force on 22 December 2023. The amendment also concerned the SAO's audits; according to this, the SAO will audit the following if a breach of legal regulations is suspected:

- whether the candidate applying to be registered as a candidate or a registered candidate has used foreign subsidy, or any property derived therefrom for the purpose of influencing or attempting to influence the will of the electorate in relation to the election in question. If, after the candidate has been registered, the SAO's audit finds that the candidate has infringed the above legislative provisions, the candidate must pay to the central budget double the amount of the subsidy within fifteen days of the SAO's request. If the candidate fails to fulfil this obligation within the deadline, the

debt will be collected by the state tax authority at the request of the SAO by way of taxes.

- whether an association applying to be registered as a nominating organisation or an association registered as a nominating organisation has used foreign subsidies or subsidies from domestic legal entities or unincorporated organisations, anonymous donations or assets derived from such donations for the purpose of influencing or attempting to influence the will of voters in relation to the election in question. If the SAO finds a violation in this respect, the association must pay double the amount of the subsidy to the central budget within fifteen days of the SAO's call and, if the association violates this obligation, the SAO will inform the state tax authority, or, in the case of associations with public benefit status, the court that registered the association. In the event of non-payment, the debt will be collected by the state tax authority at the request of the SAO by way of taxes.



BENEFIT ACROSS SOCIETY AND AT THE PROFESSIONAL AND ACADEMIC LEVELS

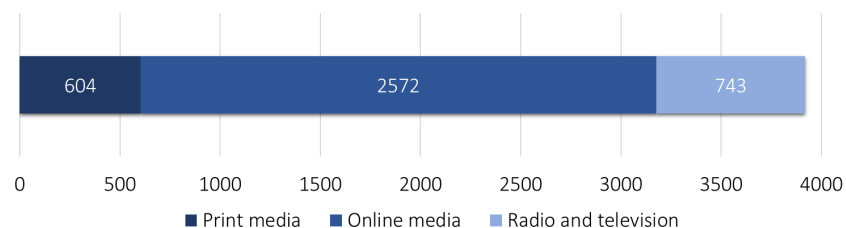
PUBLIC SCRUTINY

The SAO pays particular attention to the benefit of the results of its work. Mindful of the requirements of quality and professionalism, it provides certified information to the National Assembly and the public on whether public funds are used and managed in a lawful, appropriate and effective manner. Revamped in March 2023, the official website of the SAO provides the National Assembly and the public with clear and user-friendly information on the SAO's data of public interest, professional activities, achievements and events, while supporting the SAO in the performance of its tasks.

In order to provide the public and the press with direct, certified and complete information, the SAO published 34 news items and press releases on its revamped website in 2023, concerning its cooperation with other agencies and authorities, events in international relations, the results of audits of high interest, and the domestic and international activities of the organisation.

The interest in the SAO's activities is shown by the fact that, in 2023, a total of 3,919 press articles concerning the SAO were published in the national media, of which 604 were in the print media, 2,572 in online media and 743 on radio and television (Chart 6).

Chart 6: Appearances in Hungarian media (number)

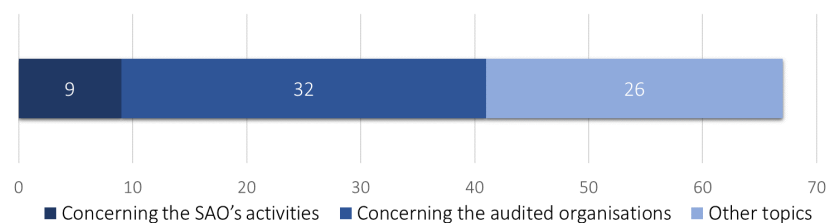


HANDLING AND BENEFITS OF WHISTLEBLOWING REPORTS AND COMPLAINTS

In the reporting period, the SAO acted in accordance with the provisions of the Act on SAO, its Organisational and Operational Rules, and after 1 November 2023, the procedures on complaints, whistleblowing reports, requests for comments and other requests (hereinafter collectively: enquiries) when responding to a total of **67 requests for comments** and other requests. The enquiries received by the SAO may be grouped into three main categories (Chart 7):

- those concerning the SAO's activities, reports and their availability,
- the audited organisations, and
- other issues.

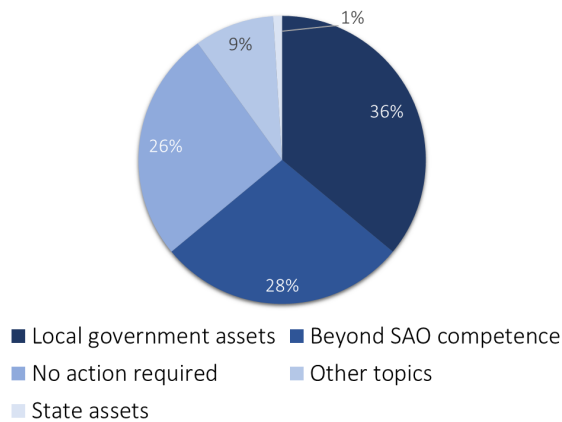
Chart 7: Enquiries received by the SAO, by type (number)



The SAO dealt with each enquiry individually.

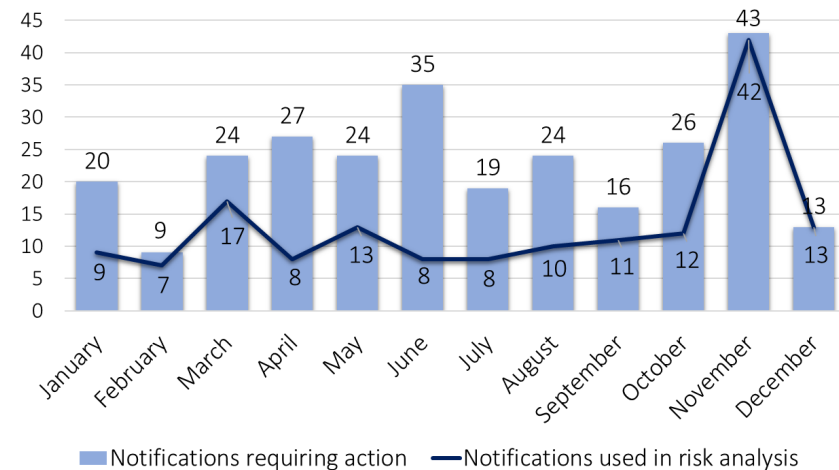
In 2023, the SAO received **381 notifications** and handled these in accordance with Act CLXV of 2013 on Complaints and Whistleblowing Reports and the SAO's procedures on complaints and whistleblowing reports, then, from 24 July 2023, in accordance with Act XXV of 2023 on Complaints, Whistleblowing Reports and Rules on the Notification of Abuse (hereinafter: new Act on Complaints) and the Complaints Handling Regulation drafted on the basis of the Act. As in previous years, the year 2023 also saw a high proportion of notifications related to local government assets; these accounted for 36.0% of all notifications received and almost half of all notifications requiring action. The proportion of notifications beyond SAO competence or not requiring action was almost identical (28.0% vs. 26.0%), while the proportion of notifications concerning state assets (1.0%) was negligible. The notifications related to other topics (9.0%) typically concerned the financial management of political parties, political organisations and state-owned enterprises (Chart 8).

Chart 8: Notifications received, by topic (%)



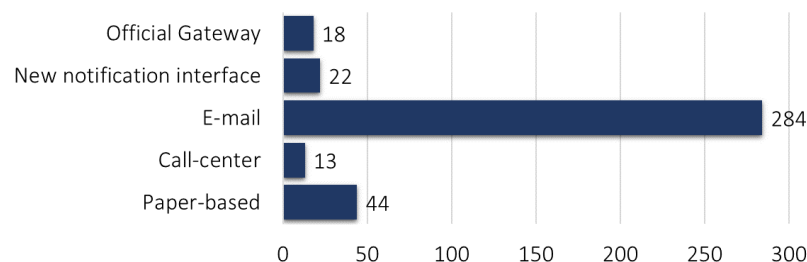
More than 25.0% of the notifications received in the reporting year were considered as not requiring action under the relevant regulatory environment, and while no action was taken on the subject of the notification, the assessment of, and the administrative tasks related to, these notifications also required significant capacity. Of the notifications received, 280 required action (73.5%). In accordance with the provisions of Article 23(2)(d) of the Act on SAO, the SAO used these notifications in the course of specific risk analysis in its ongoing audits or in planning its audits (Chart 9). Where a notification concerned a matter outside the competence of the SAO, the SAO referred the notification to the body authorised to manage the case, taking into account the relevant data protection provisions, and informing the complainant or the whistleblower within eight days of receiving their notification. In the period covered by the report, 58 cases (15.2%) were referred.

Chart 9: Monthly breakdown of notifications requiring action used in risk analysis (number)



The SAO accepts notifications communicated in person, in writing, by telephone or electronically. In the period covered by this report, nearly 75.0% of notifications were received through one of the available electronic channels. To facilitate the notification process, in March 2023 the SAO introduced on its website a form to be filled in with notifications. The proportion of notifications made electronically is illustrated in Chart 10.

Chart 10: Notifications received, by channel (number)



ADVISORY ACTIVITY

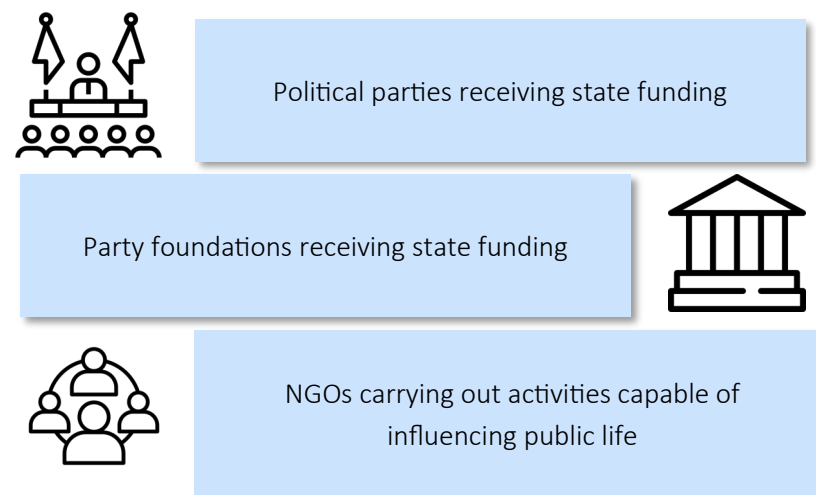
SELF-TESTS

In 2023, the SAO prepared and published on its website updated self-tests for three categories of audited organisations (Chart 11); if organisations complete these tests, which are voluntary, they will be given guidance on the regularity of their financial management and operations.

The legal background for the self-testing of **parties and party foundations receiving state funding** is provided by the Act on Political Parties, the Act on Foundations Supporting the Operation of Parties, Act C of 2000 on Accounting (Accounting Act), Act CLXXV of 2011 on the Right of Association, the Public Benefit Status and the Operation and Support of Non-Governmental Organisations (Act on Association Rights) and Government Decree 479/2016 (XII.28.). The self-test covers the development of the financial management framework, the financial

management of a party or party foundation, the financial statements of the party and the annual reports of party foundations, and the areas of audit and disclosure. A checklist, a guide and reference to the relevant legal regulations are available to help with completing the self-test.

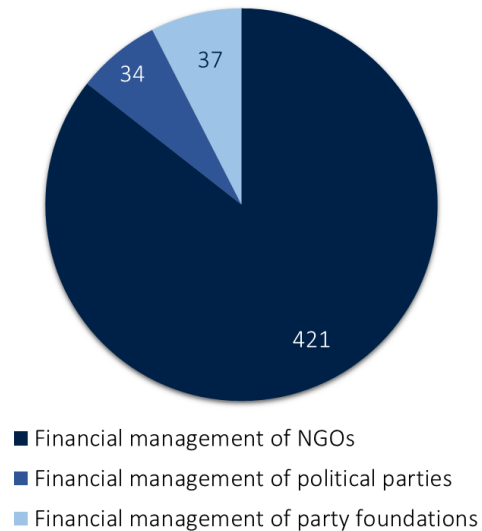
Chart 11: Auditees supported with the new self-test in 2023



The self-test of **NGOs conducting activities capable of influencing public life** can support the NGOs in complying with the legal regulations in their financial management and the development of their regulatory environment, as well as the regularity of their financial management. By completing the self-test, NGOs will both receive an assessment and a guidance for proper financial management in accordance with their specific characteristics and the legal requirements, taking into account the provisions of the Accounting Act, Act XLIX of 2021, the Act on Association Rights and the provisions of Government Decree 479/2016 (XII.28.) and other applicable legal regulations.

Users downloaded the self-tests published by the SAO a total of 492 times in 2023 (Chart 12).

Chart 12: Self-test download statistics in 2023 (number)



ADVISORY AUDIT, ADVISORY OPINION

As of 1 January 2023, the State Audit Office of Hungary may – pursuant to the amendment of the Act on SAO – carry out an advisory audit on the basis of a request from the proprietary body, governing body, owner or founder, in the specified area, and prepare an advisory opinion on the results of the audit for the head of the audited body. In 2023, the SAO started **advisory audits on the performance of ownership functions** at three organisations. The audit covers the framework for the performance of ownership functions at NISZ National Infocommunications Services Company Limited by Shares (hereinafter: NISZ Ltd.), the exercise of ownership activities and the safeguarding and enhancement of the state assets embodied in its ownership shares.

HANDBOOK FOR THE ACCOUNTING OF FUNDS SPENT ON THE PARLIAMENTARY ELECTION CAMPAIGN

On the basis of its audit experience gained in the course of fulfilling its statutory obligation to audit the use of subsidies, in the handbook the SAO compiled the most essential information to support the work of candidates and nominating organisations in the pre-election campaign period and in the subsequent accounting and auditing. The aim of the handbook is to provide a comprehensive overview of the regulatory environment affecting elections, based on the SAO’s audit experience, in the framework of its audit support activity, in order to support the proper use of public funds by individual candidates and nominating organisations involved in the audit of the accounting of public funds spent on campaigning and other funds as defined in the Act on Political Parties.

PROFESSIONAL COLLABORATIONS

In 2023, the SAO expanded its professional cooperation network and, directing special focus on academic cooperation, it renewed its cooperation agreement with the **Ludovika University of Public Service** (hereinafter: Ludovika University); this includes, among others, curriculum and teaching material development, joint training, arranging internships, and the implementation of joint research and professional programmes.

In 2023, the SAO signed a cooperation agreement with the **PPA** in order to assist each other in legal matters in their respective fields. The cooperation includes regular consultations, joint conferences and training, as well as effective action against corruption. In 2023, this cooperation involved training courses held about the public procurement system itself and on how the electronic public procurement system operates. In addition, the SAO attended the Public Procurement Expo 2023, organised by the PPA in the autumn of 2023 at the Ludovika Campus; the most important professional organisations in the field of

public procurement were also present. The event aimed to promote professional dialogue and knowledge sharing in the spirit of prevention.

The Hungarian State Treasury (hereinafter: Treasury) and the SAO are mutually committed to ensuring regularity and compliance in the use of public funds. By sharing the large amounts of data and information they hold, the two organisations can perform their public services more efficiently and effectively. In 2023, the SAO signed a cooperation agreement with the Treasury, in which the parties agreed to share their audit experience and the data available to them in order to support each other in improving audit methodologies and audit practices, and thereby improve the effectiveness of the auditing process.

On 19 October 2023, **the Ministry of Culture and Innovation** (hereinafter: MoCI) invited the SAO to work with it on a joint technical paper. The joint technical paper contains the strategic guidelines of the sectoral governance entity, legal and organisational issues concerning public-interest asset management foundations with a public-service mission and the higher education institutions they support, as well as guidelines on financial, economic and asset management.

PROFESSIONAL WORKING GROUPS

In order to access the resources of the European Union's Recovery and Resilience Facility, Hungary developed its **Recovery and Resilience Plan** (hereinafter: RRP), which was approved by the Council of the European Union in an implementing regulation. The 13th reform measure in the state and public administration component of the RRP stated that Hungary would introduce in 2023 a regular review of expenditures in certain priority areas of the state, based on a medium-term work plan. The Ministry of Finance (hereinafter: MoF) is responsible for coordinating and conducting the expenditure reviews based on the Government Decision 1262/2023 (VII.4.) on the review of the effectiveness of public expenditure. In May 2023, the MoF set up working groups on health,

family and housing subsidies, with the participation of experts from the SAO. The SAO will be able to benefit from the results of this joint professional work regarding the future of these sectors.

In 2023, the SAO continued to participate in the work of **the Working Group on Internal Control in Public Finances**, in the framework of which it monitored the changes in the legislative environment related to internal control systems and participated in the evaluation tasks of the Working Group.

KNOWLEDGE-SHARING

As part of its efforts to cooperate with the auditees, the SAO shares and widely disseminates its audit experience and good practices, thereby improving the operation of the organisations using and/or managing public funds and the transparency of their use of such public funds. In the framework of its audit support activities, the SAO launched a series of knowledge-sharing consultations for NGOs in three county capitals (Győr, Békéscsaba and Nyíregyháza) in front of audiences of 50–60 people at each venue. In this consultation series, the SAO, relying on its audit experience, disseminates good practices to help NGOs to remedy the deficiencies in their record-keeping, financial management, reporting and regulatory systems identified during the audits, and thus to promote good financial management. The event series will continue in 2024, with the SAO planning to visit every county to support the work of local non-governmental organisations.

PUBLIC FINANCE QUARTERLY

The Public Finance Quarterly, a public finance journal with a nearly 70-year history, was founded by the Ministry of Finance in May 1954 and has been published quarterly by the SAO since July 2005. From the second quarter of 2023, the SAO has transferred its founder and journal owner rights to Corvinus University of Budapest, thus helping to ensure that research findings in the field of finance reach an even wider audience through education and academic conferences, and to enable the latest results of public finance research of authors ranging from PhD students to experienced professors to be shared in an internationally recognised, long-standing and highly ranked journal of high quality. Several members of the SAO's staff continue to participate in the work of the Editorial Board.

INTERNATIONAL COOPERATION, PROFESSIONAL PUBLIC ROLE

The SAO continued to play an active role in the international SAI community in 2023. The SAO is a member of INTOSAI, where it participates in the activities of a number of committees and subcommittees, including the Professional Standards Committee, the Compliance Audit Subcommittee, the Performance Audit Subcommittee, the Subcommittee on Internal Control Standards, and working groups (Chart 14). The SAO also plays an active role in several EUROSAI working groups, e.g. in the areas of IT, environmental auditing, local government auditing, the ethics network, and in the joint work of several project groups (Chart 13).

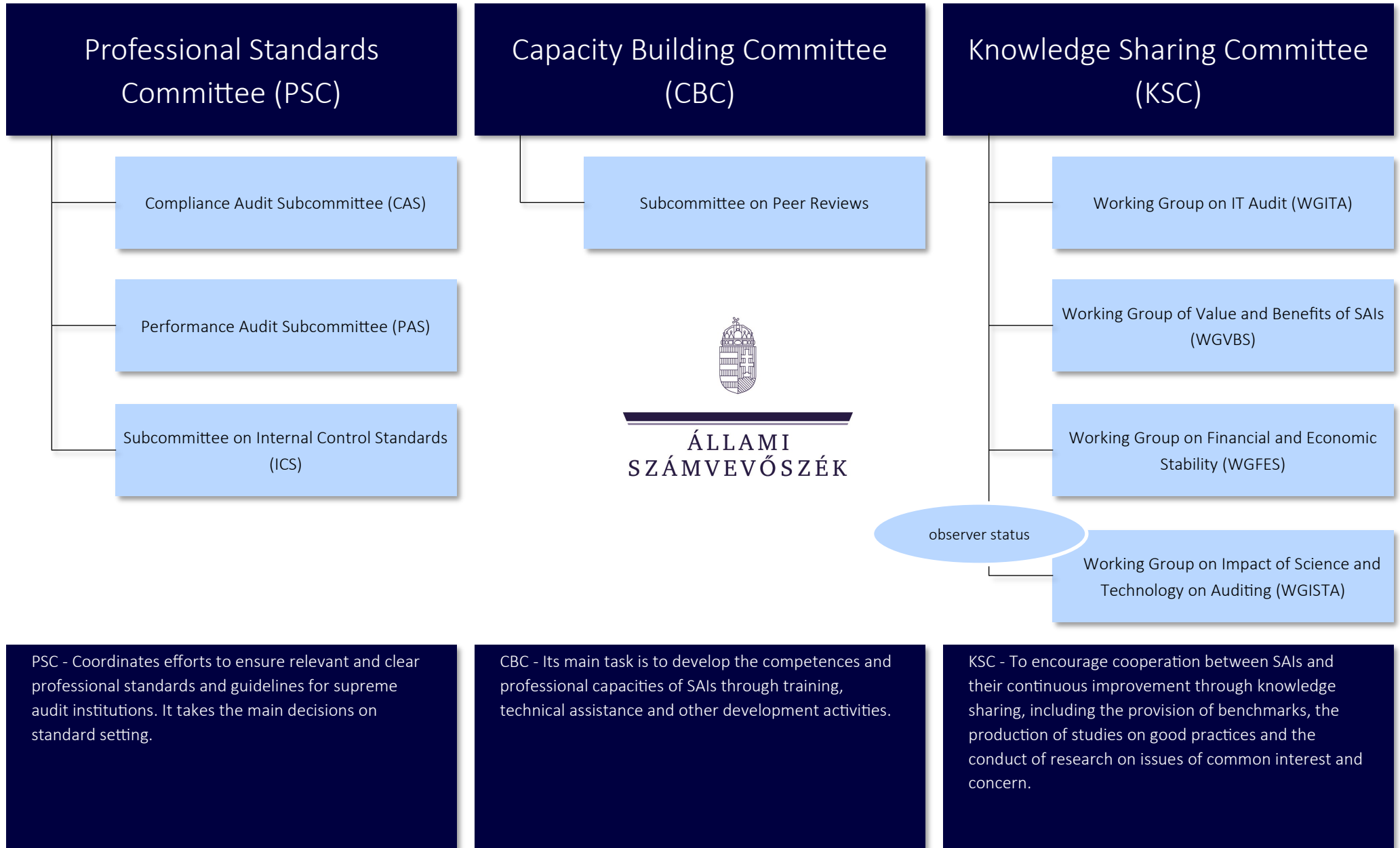
The SAO regularly provides expert input in all the working groups and subcommittees, and the SAO's designated representatives are in regular contact with the foreign members of the networks and participate in joint work.

Chart 13: The SAO's participation in EUROSAI working groups



The SAO is proactive in responding to new methodological challenges affecting its activities, and is represented in the EUROSAI working group on the technical details, benefits and methods of real-time audits, which provides an opportunity for direct exchanges of experience with partner SAIs.

Chart 14: The SAO's participation in INTOSAI committees and subcommittees



Bilateral presidential meetings

International bilateral meetings played a prominent role within international cooperation in 2023. The President of the SAO met personally with the **Secretary General of INTOSAI**, who is also the President of the Austrian Court of Audit. The main topic of the meeting was the evaluation of the results of the 2022 INTOSAI Congress. In addition to the possibilities of future bilateral relations between their institutions, the two SAIs also discussed the challenges and the possible future directions of audits by state audit offices.

The President and the Vice-President of the SAO received in their offices the **Ambassador of the Republic of Korea** to Budapest and the **Vice-President of the SAI of the Republic of Korea**. The Hungarian and Korean partners launched an exchange of experiences regarding auditing methodology and technology.

A meeting at presidential level between the representatives of the SAO and the **Supreme Audit Office of the Slovak Republic** took place in Budapest. At the bilateral meeting, the parties renewed the cooperation agreement between the two SAIs and discussed several topics of common interest, such as the sustainability of public finances, the process of selecting audit topics and the planning of annual audits.

A delegation headed by the President of the SAO visited Ljubljana at the invitation of the President of the **Court of Audit of the Republic of Slovenia**. Due to the similarity of the audit mandates of the two institutions, a large number of audit-related issues were discussed at the meeting between the presidents. The bilateral exchange of experience focused on practices followed in the auditing of the financial management of political parties and the related challenges for audit offices, data-based auditing, and the choice of audit topics based on risk analysis.

Multilateral meetings at strategic level

The members of the **V4+2 cooperation** (the Czech Republic, Hungary, Poland, Slovakia, Austria and Slovenia) have been meeting annually at the presidential level since the early 2000s, given the fact that they face similar challenges and operate in countries with similar economic, social and cultural backgrounds. The 2023 meeting of the V4+2 cooperation was hosted by the SAI of the Czech Republic.

The participants discussed the impact of audits of public funds and how to enhance such impacts, and how international comparisons can support the uptake of audits by state audit institutions. They agreed that the choice of audit topics is of particular importance in enhancing the impact of audits, and that it is equally important to communicate the audit findings and messages in an appropriate way to the public as well, not only to the auditees.

In 2023, Portugal's supreme audit institution hosted the **annual meeting of the EU Contact Committee**, a network of heads of the EU's supreme audit institutions. Energy challenges were at the heart of the agenda.



Participants at the annual meeting of the EU Contact Committee

The participants discussed how their institutions can contribute to a better and more sustainable implementation of national and EU policies to achieve the EU's 2030 energy targets. The members of the EU Contact Committee agreed to strengthen their cooperation in the field of energy auditing at strategic level, by holding regular consultations and sharing their audit experience.

A priority cooperation platform for SAOs within the EU Contact Committee is the **VAT Working Group**, in which the SAO has been a member since 2003 and its chair since 2022. The EU VAT Working Group is a forum for the exchange of experience on the VAT system of the European Union, with a focus on administrative cooperation between Member States, measuring VAT losses due to fraud, assessing the effectiveness of anti-fraud policies, and promoting cooperation in VAT audits. The Working Group conducts its mid-year tasks through two subcommittees, and the SAO, as chair, reports annually to the EU Contact Committee on the activities of the Working Group in the previous year.

The SAIs of Germany and the Netherlands, in cooperation with the European Court of Auditors, have proposed the creation of a new expert-level **EU Network Audit on Energy (EUNA)** focusing on the topic of energy, within the framework of the EU Contact Committee. The aim of the initiative is to deepen and support the energy-related audit work of the SAIs in the European Union. As its main theme, the initiative focuses on how the supreme audit institutions can contribute to a more adequate and flexible implementation of the EU's 2030 energy targets. The SAO joined the EUNA Energy Audit Network following the EU Contact Committee meeting.

The **INTOSAI Compliance Audit Subcommittee**, one of the four subcommittees under the Professional Standards Committee of the global organisation, held its 20th anniversary meeting in Budapest in 2023. Organised by the SAO and chaired by the Office of the Comptroller and Auditor General of India, the conference brought together 36 experts



INTOSAI Compliance Audit Subcommittee meeting in Budapest

from 16 countries to discuss, among other issues, how audits by state audit institutions can help reduce social inequalities. The meeting attendees discussed, among other things, the importance of audit planning, real-time audits, and the significance of having a quality control framework in place.

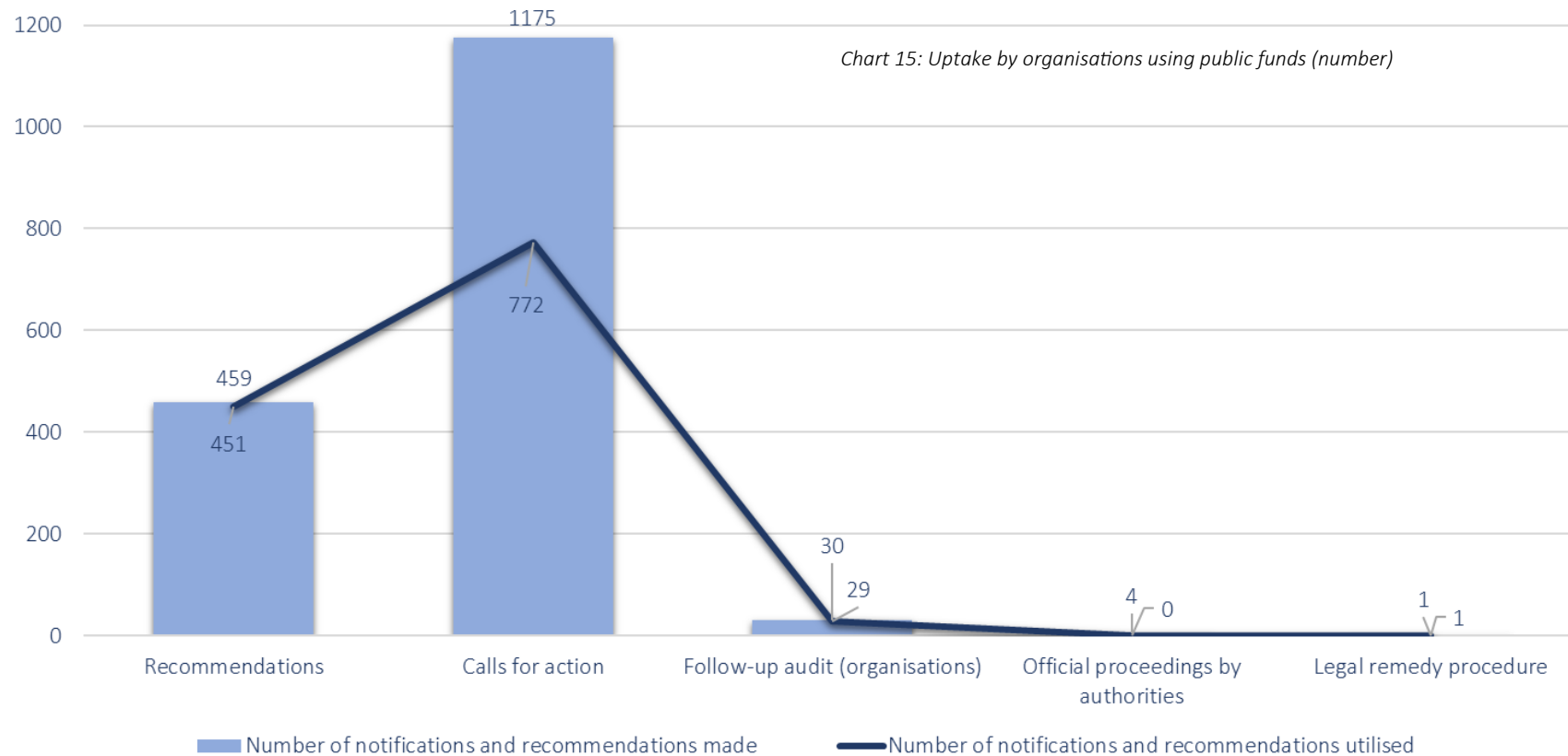
Under the auspices of the INTOSAI Development Initiative, a **project to strengthen the SAI of the Democratic Republic of Congo (2022–2025)** was launched in early 2022, with the aim of establishing better and more effective controls at the SAI of the Democratic Republic of Congo (hereinafter: DRC SAI). In this project, the SAO supported the review and revision of the Code of Ethics of the DRC SAI by providing professional assistance. The SAO has also been involved in the implementation of the DRC SAI's development objectives in the field of communication.

BENEFITS FOR ORGANISATIONS USING PUBLIC FUNDS

The Act on SAO provides the SAO with a wide range of tools to exert influence on the auditees in order to ensure the legally compliant use of public funds; these tools include the presidential calls for action, recommendations formulated in the SAO's reports, the obligation of the organisations to take action in response, follow-up audits and initiating official action by the authorities. (Chart 15)

RECOMMENDATIONS, ACTION PLANS AND CALLS FOR ACTION BASED ON FINDINGS REQUIRING ACTION

The SAO made a total of 459 recommendations to 142 recipients in 66 reports. In accordance with the provisions of the Act on SAO, the managers required to take action prepared and sent to the SAO their action plans of the measures already taken or planned in order to remedy the errors and deficiencies in response to the recommendations formulated on the basis of the audit findings, and the SAO carried out assessments of these action plans. The implementation of the tasks



undertaken in the action plans may be subject to follow-up audits by the SAO under the Act on SAO. With two exceptions, the SAO accepted the action plans sent, as the measures contained in them were in line with the findings of the audits and, in the SAO's opinion, they were appropriate to remedy the deficiencies found. The SAO requested further additions to the action plan from two of the organisations, while two other organisations were wound up without legal succession.

FOLLOW-UP AUDITS

In 2023, the SAO carried out a follow-up audit of the implementation of the actions undertaken by the audited organisations in their action plans, following the recommendations made in four previous reports. The follow-up audits found a 97.0% rate of benefit of the audit recommendations, with auditees implementing the actions they had committed to.

- In order to ensure **the benefit of the findings of its audit of the 2020 final accounts**, the SAO assessed the actions undertaken to correct the irregularities and deficiencies contained in the President's calls for action sent to the heads of 23 audited organisations in October 2021. The follow-up audit found that the irregularities reported in the calls for action were fully covered by the actions undertaken by the audited organisations and that the actions were fully implemented by the auditees.
- During its **follow-up audit of organisations exercising ownership rights over state assets**, the SAO assessed the actions taken by the organisations that were served calls for actions in relation to the exercise of ownership rights in 2019 and 2020. During the follow-up audit, the SAO found that the audited organisations had remedied the deficiencies.
- During its **follow-up audit of the legality of the financial management of party foundations receiving state funding in the**

years 2020–2021, the SAO assessed whether a party foundation implemented the action plan as presented in response to the findings of the audit of its financial management in 2018–2019. The follow-up audit found that the audited organisation had not implemented the action plan and the irregularity originally identified by the SAO persisted.

- In its follow-up audit of the real estate management activities of local governments and central budgetary entities, the SAO assessed the implementation of measures taken to remedy deficiencies in the integrity audit of one local government. The follow-up audit found that the auditee had corrected the deficiency.

CALLS FOR ACTION AND INFORMATION LETTERS

Pursuant to Article 31 of the Act on SAO, the President of the SAO may send a call for action to the head of the audited organisation to request elimination of any unlawful practice or improper or wasteful use of assets identified during the audit, unless legal regulations provide for the application of more severe legal sanctions. The head of the organisation must review the call for action within fifteen days, take appropriate action and inform the President of the SAO. In 2023, the President of the SAO sent calls for action to 1,175 recipients, inviting them to take action in order to terminate the illegal practices, misuse or wasteful use of assets identified during the audit.

Even before the end of the audits, the audited organisations reported eliminating 65.7% of the infringing practices.

On the basis of the audit findings, the President of the SAO made recommendations to 28 auditees, mostly clerks and mayors, advising them to take action to ensure rational asset management and achieving a sound financial position. The proposals included the long-term utilisation of property, the examination of the impact of revenue-raising and

expenditure-reducing measures, and the internal auditing of the local tax activities identified as high-risk in a risk analysis process. Nine of the 28 recipients sent feedback to the SAO on the correction of the errors.

NOTIFICATIONS TO THE AUTHORITIES

Pursuant to Article 30(1) of the Act on SAO, if the SAO finds in an audit that a criminal offence has been committed, it must immediately communicate its findings to the competent authority, i.e. to initiate criminal proceedings. In 2023, the SAO notified the investigative authorities of four suspected criminal offences identified during audits. Each report recorded suspicions of several criminal offences.

The reported audits concerned three cases of local governments and mayors' offices. The SAO initiated proceedings before the competent investigative authorities on suspicion of misappropriation, embezzlement and breaches of accounting rules.

In one case, the SAO initiated proceedings with the competent NTCA Criminal Directorate for suspected budgetary fraud involving a sports club.

The competent investigative authorities launched proceedings in all four cases.

REQUESTS FOR LEGAL REMEDY PROCEDURE – IRREGULARITIES DETECTED IN PUBLIC PROCUREMENT PROCEDURES

Pursuant to its authorisation by Act CXLIII of 2015 on Public Procurement (hereinafter: Public Procurement Act), the SAO may initiate ex officio proceedings by the Public Procurement Arbitration Board (PPAB) if it becomes aware of any conduct or omission during the performance of its duties that is in breach of the Public Procurement Act or the Decree issued based on the statutory powers granted in the Public Procurement Act. The objective time-limit for taking the initiative is three years from the date of the infringement or, in the case of procurement not in a public procurement procedure, not more than five years from the date of the conclusion of the contract or, if this cannot be established, from the date of the start of performance of the contract by either party.

In 2023, the SAO referred one legal remedy procedure to the PPAB in relation to the public procurement irregularities detected during the audits, in the framework of which the PPAB confirmed the public procurement irregularity in its decision, as was stated in the request for legal remedy, and decided to impose a fine on the organisation audited.

AUDIT EXPERIENCE FROM THE AUDITS CLOSED IN 2023

CENTRAL LEVEL OF PUBLIC FINANCES

AUDIT OF THE FINAL ACCOUNTS FOR 2022

In line with the legal requirements, the National Assembly discusses the Bill on the Implementation of the Central Budget of Hungary together with the report of the SAO. On 6 October 2023, the SAO submitted to the National Assembly its report on the final accounts for 2022, i.e. on the implementation of Hungary's central budget for 2022.

The SAO audited the implementation of the central budget, including central and chapter-managed appropriations, the social security funds, separated state funds and the revenue and expenditure appropriations of the budgetary entities of the central sub-sector of public finances, as well as the reliability of the revenue and expenditure data.

The audit found that the MoF prepared the Bill on the Final Accounts in accordance with the provisions of Act CXCV of 2011 on Public Finances (hereinafter: Act on Public Finances), on the basis of the annual budget implementation reports, in a manner comparable with the adopted budget, and with the content and structure prescribed in legal regulations.

The audit found that the central and chapter-managed state funding appropriations in the central sub-sector of public finances and those financed with EU and domestic sources of funding, as well as the revenue and expenditure appropriations of organisations in the central sub-sector, the Social Security Funds and Separated state funds were reliable and, also, that the actual data in the Bill on the Final Accounts for 2022 were accurate. The audit did not identify any material misstatements that would affect the accuracy of the data used to prepare the final accounts or the reliability of the Bill on the Final Accounts.

The audit also found that the revenues and expenditures of the central budget and the cash deficit of the central sub-sector of public finances were in excess of the original amounts set in Act XC of 2021 on the Central Budget of Hungary for 2022 (hereinafter: Central Budget Act 1). At the same time, the cash deficit of the central sub-sector decreased to 7.1% of GDP by the end of 2022, compared to 8.6% in the previous year.

The audit showed that deficit-to-GDP ratio in the general government sector narrowed to 6.2% from 7.2% in 2021, yet still remained above the Maastricht criterion of 3.0%. In order to address the negative impacts of the COVID-19 pandemic, the exemption from the Maastricht criterion was allowed by both EU regulations and the exemption provisions, adopted in order to guarantee the stability of the national economy in the crisis situation, of Act CXCV of 2011 on the Economic Stability of Hungary

(hereinafter: Act on Economic Stability) for the year 2022 as well. The public debt ratio declined from 76.7% at the end of 2021 to 73.9% at the end of 2022, and was thus more favourable than the planned ratio of 79.3% set in Central Budget Act 1.

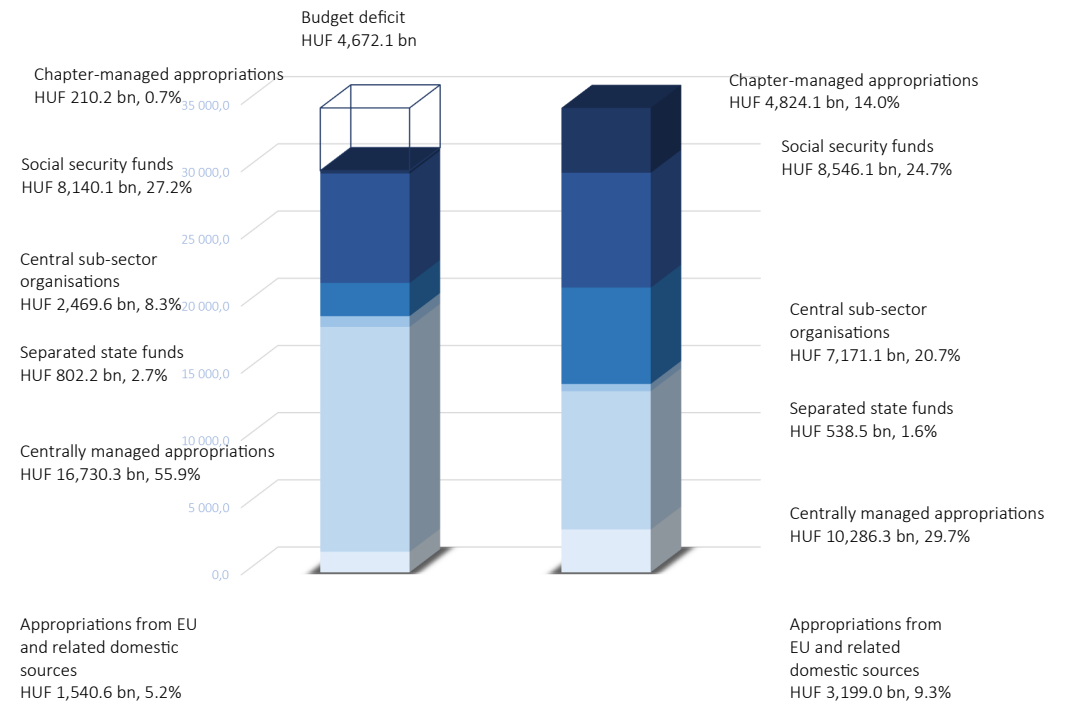
The 2022 central budget was implemented in accordance with the legal requirements. The audit did not reveal any material error affecting the regularity of the implementation of the budget as a whole. The SAO informed the heads of the audited organisations concerned of the one-off deficiencies found in the accounting of economic events, in the controls prior to the execution of payments and in internal rules. The performance figures for revenue and expenditure appropriations of the central sub-sector in 2022 are shown in Chart 16.

OPINION ON THE 2024 CENTRAL BUDGET

In line with the legal regulations in force, the National Assembly discusses the Bill on the Central Budget of Hungary together with the opinion of the SAO. As is required by legal regulations, the SAO submitted to the National Assembly its opinion on the Bill on the Central Budget of Hungary for 2024 on 9 June 2023.

In its opinion, it pointed out that the cash deficit figure in the Bill on the Central Budget of Hungary for 2024, submitted to the National Assembly on 30 May 2023 (hereinafter: Central Budget Bill for 2024), consisted of a HUF 1,388.8 billion deficit in the domestic accumulation budget and a HUF 1,126.0 billion deficit in the EU development budget. In the Central Budget Bill for 2024, the deficit of the domestic accumulation budget decreased by HUF 462.4 billion and the deficit of the EU development budget by HUF 423.0 billion year on year. This reflected the reduction in public investment starting in the second half of 2022 and a reduction in EU programme funding.

Chart 16: Total revenue and expenditure figures of the central sub-sector in 2022, by audited area and as a % of the sum total



Revenues : HUF 29,893.0 billion

Expenditures : HUF 29,893.0 billion

Source: based on the Bill on the Central Budget of Hungary for 2024—SAO own edit

According to the justification section of the Central Budget Bill for 2024, the deficit of the government sector was HUF 2,506.5 billion, representing 2.9% of the nominal GDP target for 2024. The projected government sector deficit at the end of 2024 is less than 3.0%, which is in line with the Act on Economic Stability.

According to the Central Budget Bill for 2024, the planned public debt ratio will be lower as of 31 December 2024, thus the public debt ratio target for the end of 2024 complied with the requirement of the reduction of the public debt ratio set in the Fundamental Law and the Act on Economic Stability.

On the whole, the appropriations in the Central Budget Bill for 2024 were soundly based on calculations. 99.8% of the revenue targets of material amounts selected in the Central Budget Bill for 2024 were feasible, while 0.2% carried a risk concerning achievability. Overall, the revenue targets in the Central Budget Bill for 2024 were achievable on condition that the government's macroeconomic forecasts are realised.

In its opinion, the SAO stated that 99.9% of the appropriations selected to assess the adequacy of uncapped expenditure appropriations of a material amount in the Central Budget Bill for 2024 were sufficient, while 0.1% of the appropriations were at a risk of being insufficient for performing the relevant tasks and/or for financing operations. The estimated amount of the adequacy risk was HUF 17.0 billion.

In its opinion, the SAO noted that the Extraordinary Government Measures heading under central reserves in the budget bill would be sufficient to cover the risks identified in its assessment of the appropriations.

CENTRAL BUDGETARY ENTITIES – AUDIT OF MID-LEVEL GOVERNANCE TASKS – NATIONAL POLICE HEADQUARTERS

According to Act XXXIV of 1994 on the Police (hereinafter: Police Act), the Police Headquarters is a body established to perform general police tasks and is divided into a central body, county (capital) police headquarters, police stations and border police stations.

The SAO audited the establishment of the framework for the operational and financial management activities of the Police Headquarters in the

years 2021 and 2022, the planning of its elementary budget, its management of financial and national assets, the compliance of its budget implementation reports with the legal requirements and the expectations of the governing body, and the performance of the mid-level governance functions of the Police Headquarters.

The SAO's audit found that the Police Headquarters established the regulatory framework for its operational and financial management activities in accordance with the legal requirements. The records kept by the Police Headquarters of the persons authorised to enter into commitments or certify performance and their specimen signatures did not fully comply with the legal requirements.

The audit showed that the Police Headquarters established the conditions for internal monitoring and internal audit in accordance with the legal regulations, and had internal regulations in place to ensure their operational conditions. The annual internal audit plans of the Police Headquarters for 2021–2022 did not comply with the instructions of the Mol, as the Police Headquarters did not separately identify the budgetary entities under its control.

The audit found that the Police Headquarters prepared its elementary budgets and annual budget proposals in accordance with the legal requirements.

The audit showed that in order to maintain its solvency, the Police Headquarters took measures to recover its outstanding debts and continuously monitored the payment of those debts. The Police Headquarters continuously analysed and assessed its liquidity situation.

The audit found that the performance of the Police Headquarters' tasks related to increases and decreases in national assets and the utilisation of the assets did not fully comply with the legal regulations or its own internal regulations in the years audited, because, as revealed by the audit, there were deficiencies in the contracts for the transfer of the right

of trusteeship, the determination of the cost value and the accounting of the economic event.

The annual budget implementation reports of the Police Headquarters did not fully comply with the legal requirements and its internal rules due to a deficiency in the inventory of fixed assets and inventories.

The audit showed that the Police Headquarters established the regulatory framework for the performance of its functions as mid-level governance entity in accordance with the legal requirements and performed them in accordance with the legal requirements and the instructions of the governing body, with the exception of its auditing activities as a mid-level governance entity. The Police Headquarters reported to its governing body on its mid-level governance activities.

On the basis of the audit findings, the SAO made eight recommendations to the Head of the Police Headquarters, requesting them to take action in order to establish and properly operate the control activities and separate the auditing of the Police Headquarters and the bodies under its control in the internal audit plan, include the mid-level governance functions in the internal audit activities of the Police Headquarters, the existence of fiduciary contracts, the compliance of the utilisation of assets with the legal regulations, the annual accounting of inventory discrepancies and the verification of the supporting documents for the annual budget implementation reports of the budgetary entities under the control of the Police Headquarters. An action plan on the recommendations was prepared by the head of the Police Headquarters and accepted by the SAO.

TARGETED AUDIT OF THE REGULARITY OF EXPENDITURES DECLARED AS MATERIAL/CAPITAL/STAFF REMUNERATION EXPENDITURES BY BUDGETARY ENTITIES IN THE CENTRAL SUB-SECTOR OF PUBLIC FINANCES

The SAO conducted a targeted audit of three budgetary entities in the central sub-sector of public finances on whether, in the year 2022, they complied with the legal regulations concerning the payments declared as staff remuneration, material and capital expenditures. It audited two other budgetary entities to verify the appropriateness of their material and capital expenditures.

The audits of staff remuneration, material and capital expenditure items identified:

- errors and deficiencies in the exercise of financial management powers,
- commitments authorised without countersignatures from finance departments,
- incorrect execution of performance certification and payment authorisation; and
- expenditures charged to the wrong headings.

The audits also revealed other irregularities concerning weaknesses in the content of commitment documents relating to staff, material and capital expenditure and non-compliance with the provisions of the procurement regulations.

On the basis of the results of the audits, the SAO made a total of seven recommendations to the heads of three budgetary entities. It called on the heads of all three organisations to initiate extraordinary internal audits in order to identify the causes of, and eliminate, the irregularities and the risks associated with the exercise of financial management rights, as identified by the SAO in its audit, and to establish and/or implement

controls to prevent the recurrence of the irregularities identified. It also recommended that financial management rights should be exercised in accordance with the requirements of the legal regulations and internal rules and that compliance should be regularly audited with the help of the internal audit function.

The President of the SAO sent a call for action to the heads of five of the audited entities during the audit, requesting them to take urgent action to eliminate the irregular practices at their organisations.

The audited organisations sent the SAO their action plans for correcting the errors and deficiencies identified during the audit and their measures to eliminate the irregular practices.

AUDIT OF THE PROTECTION OF WATER AND THE PERFORMANCE OF WATER MANAGEMENT TASKS – AUDIT OF WATER UTILITY SERVICES

According to Article XX of the Fundamental Law of Hungary, everyone has the right to physical and mental health, which Hungary promotes by ensuring access to healthy drinking water. In addition to the provisions set out in legal regulations, it is also a fundamental social need to protect our natural water resources and preserve them for future generations, so that clean water is available to all in the long term.

The SAO conducted a compliance audit to assess the regularity of the performance of certain tasks of the Hungarian Energy and Public Utility Regulatory Authority (MEKH) related to the provision of water utility services in the period from 1 January 2018 to 9 May 2022.

The audit found that the MEKH's performance of its water utility services was in compliance with the rules during the audit period. In 2018–2021, the MEKH performed properly its tasks related to the establishment of prices and tariffs for water utility services. In accordance with the provisions of Act CCIX of 2011 on Water Utility Services (hereinafter: Act on Water Utilities), the MEKH prepared and sent its proposal on the

prices and tariffs for water utility services to the Minister of Innovation and Technology by 15 October each year.

The audit showed that the MEKH carried out its supervisory activities in relation to the 11 water utility providers audited by the SAO in a regular manner. The audit methodology drawn up by the MEKH included guidelines for complex audits of water utility providers, and successfully ensured the comprehensive audit of water utility providers and their compliance with the law.

The audit also found that, in 2018–2020, the MEKH properly fulfilled its reporting and quality assessment tasks for water utility services. As part of its reporting duties, the MEKH published on its website the accounts approved by the National Assembly for the years 2018–2020, which included a summary of the audit findings of water utilities provider companies.

The audit found that the procedures for assessing the level of user satisfaction and the expectations towards individual water utility service providers are laid down in the internal rules of the MEKH. Every two years starting from 2018, in the framework of the User Satisfaction Survey, the MEKH entrusted an independent polling organisation with measuring the satisfaction of residential users covered by public service contracts with water utility services.

AUDIT OF THE FIRE PREVENTION TASKS OF THE DISASTER MANAGEMENT SERVICES

The reason for the audit was that the activities of protection bodies are periodically in the spotlight because of the emergence of disasters that directly threaten life and property, the environment and economic security. As a result of its preparatory and legislative activities in this field, the Mol, as the ministry responsible for disaster prevention, has defined the strategic objectives of the information and fire prevention activities of the fire prevention authorities and inspectorates, the tasks to be

performed in order to achieve these objectives, and the basic framework and rules for the performance of these tasks in legal regulations and in public law regulatory instruments (Chart 17).

The SAO's audit assessed the effectiveness of the information, fire prevention and supervision activities, carried out in order to protect life and property, in the field of fire prevention within the disaster management system in 2019–2022.

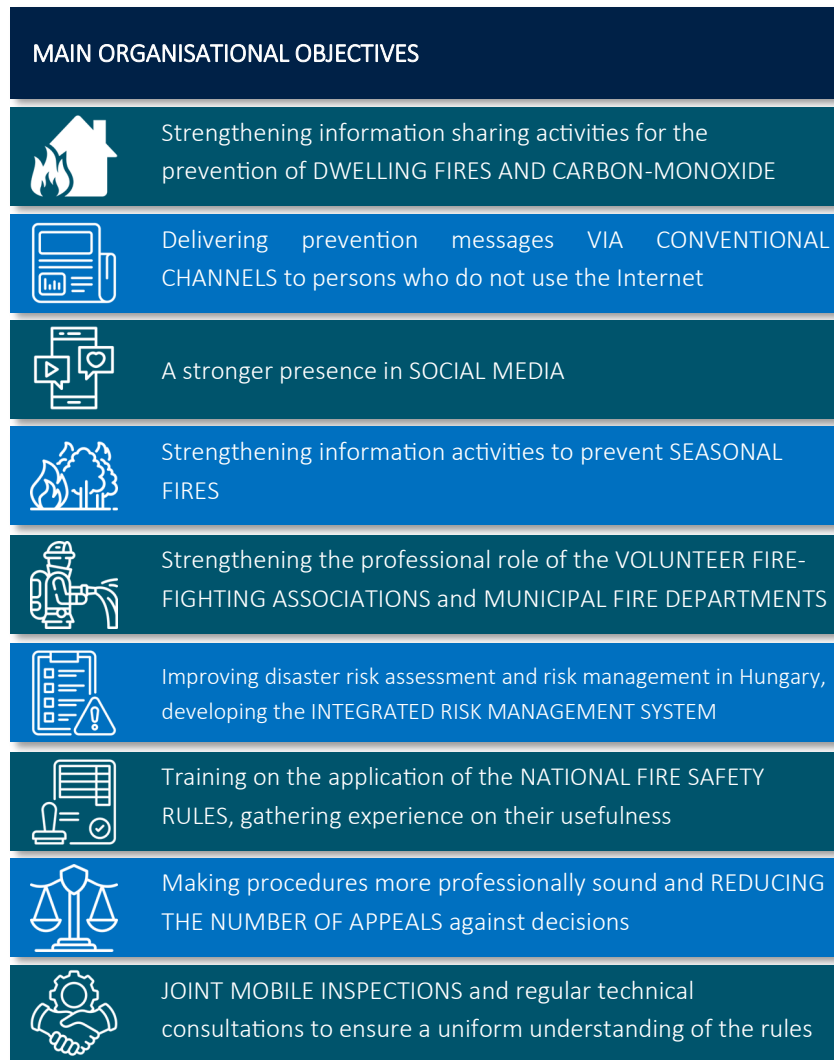
In its audit, the SAO found that the MoI National Directorate General for Disaster Management (hereinafter: NDGDM) planned its tasks and of information activities to fire prevention based on the sectoral objectives set by the MoI, but did not assign measurable targets to the objectives.

The audit revealed that the National Fire Prevention Committee (hereinafter: Fire Prevention Committee) constructed its fire prevention information activities in a planned and programmed manner and received state funding and funds outside public finances for these activities. The NDGDM, the Fire Prevention Committee and the regional bodies strengthened their cooperation with partner bodies, business organisations and other institutions in the field of awareness raising.

The audit found that the NDGDM defined the basic guidelines, rules and methods for the planning and performance of the fire prevention activities of the fire protection authorities and inspectorates, and prepared annual plans based on the sectoral objectives set by the MoI. The fire safety authority and inspection activities of the NDGDM and its regional bodies dealt with approx. 60 thousand official cases per year, of which approximately 30 thousand were audits.

The audit showed that the NDGDM and the regional bodies achieved their objectives in their function as fire protection authorities and supervisors, and that they performed their tasks effectively. The NDGDM and the regional bodies developed the integrated risk management system.

Chart 17 - Main organisational objectives related to fire prevention in the period 2019–2022



Source: annual institutional work plans, annual work programmes 2019-2022 of the NDGDM— SAO own edit

The audit found that the financial records kept by the NDGDM and its regional bodies of the awareness-raising activities in the field of fire prevention and the activities of fire protection authorities and inspectorates did not involve the separate recording of the pro rata staff remuneration of staff of the disaster management bodies who also carry out fire prevention activities for the Fire Prevention Committee.

On the basis of the audit findings, the SAO made nine recommendations to the Director General of NDGDM, requesting them to take measures to define quantifiable objectives for information activities in the field of fire prevention and assign measurements and indicators to these objectives; define the rules on the scope, acquisition, analysis, cleaning and use of data from external and internal sources to be used in risk analysis; broaden the possibilities of using data from external sources that may be taken into account for risk analysis purposes; use composite indicators for the evaluation of fire prevention activities; revise the definition of minimum values for the performance requirement for fire authority inspection in the organisational performance assessment in 2024; and separate the pro rata staff remuneration of members of the professional emergency services who are also involved in fire prevention activities for the Fire Prevention Committee. Furthermore, it recommended the renewal of the cooperation agreement between NDGDM and the National Food Chain Safety Office, the updating of the Forest Fire Protection Plan(s) and the provision of central budget resources for the operation of the Fire Prevention Committee.

The Director-General of the NDGDM prepared an action plan on the recommendations, which was accepted by the SAO.

AUDIT OF EU SUPPORT FROM THE BREXIT ADJUSTMENT RESERVE

In order to mitigate the negative impact of the withdrawal of the United Kingdom from the European Union (Brexit) on the businesses concerned,

the European Union decided in July 2020 to set up a Brexit Adjustment Reserve (hereinafter: BAR). The European Commission allocated EUR 57.2 million in funding for Hungary. Micro, small and medium-sized enterprises and large companies were eligible to apply for non-reimbursable grants from the BAR. In view of the unique nature of the BAR and its difference from other forms of EU aid, and the social justification for providing information on the use of support from the BAR for its intended purpose and the adequacy of the delivery of related tasks, the SAO assessed the use of EU support from the BAR through 15 projects.

This involved the SAO auditing the adequacy and operation of the internal control system of the Ministry of Foreign Affairs and Trade (hereinafter: MFAT) as the managing authority and HEPA Hungarian Export Promotion Agency Nonprofit Ltd. (hereinafter: HEPA Ltd.) as intermediate body, for the period between 1 January 2021 and 30 June 2023, ensuring the use of the funds provided from the BAR. The SAO focused its audit on the adequacy of the grant application system for EU funding from the BAR and the use of the funds, as well as on the regularity of the management and control system.

The SAO's audit found that the design of the grant application system was inadequate due to delays in defining the procedural rules. These regulatory deficiencies concerned internal rules, cooperation agreements and the regulation of the exercise of fiscal management powers. In 13 of the 15 projects audited, the decision on applications was irregular given a lack of credible evidence of Brexit damage or non-compliance with the grounds for exclusion due to a missed deadline. The MFAT did not provide clear guidance to applicants on the methodology for calculating losses incurred, thereby failing to ensure that grant applications would be prepared in an identical and documented manner and that credible evidence of Brexit-related damages would be provided, which resulted in ineligibility. The subjectivity and unclear wording of certain criteria and

the lack of detail in the supporting documents required for the grant applications made it difficult to carry out eligibility checks and substantive assessments on the basis of the same principles. The disbursement of grants was irregular for the reasons surrounding the irregularity of grant decisions.

HEPA Ltd. fulfilled its reporting activities to the MFAT in accordance with the terms of the cooperation agreement. However, the audit showed that the MFAT and HEPA Ltd. did not conduct their project control activities properly, failing to check the technical reports of seven projects, and MFAT did not decide on the technical reports of 11 projects within the deadline.

On the basis of its audit findings, the SAO made recommendations to both the Head of MFAT and the CEO of HEPA Ltd. to establish and properly operate control activities to prevent the recurrence of irregularities in grant decisions, the disbursement of grants and the technical reports, to investigate BAR projects in accordance with the legal and internal regulations and the SAO's findings, and to take action to eliminate the irregularities identified during such audits.

The SAO has accepted the action plan prepared by the MFAT and HEPA Ltd. in response to the findings of its report.

AUDIT OF THE SYSTEM OF DATA COLLECTION AND PROCESSING

Official statistical activity is a public service regulated by law, supporting evidence-based decision-making through the publication of statistical data serving official information dissemination and the general awareness of society. Developing a regulatory environment for statistical activity that meets the legal requirements and measuring the effectiveness of the statistical activity have a role to play in enabling actors across the economy and society to make decisions based on objective information.

In its audit of the years 2019–2020, the SAO assessed whether the statistical activities of the members of the Official Statistical Service and the audited organisations managing administrative data sources were regulated in accordance with the relevant requirements and whether the audited members of the Official Statistical Service had practices in place to measure the performance of the statistical activity.

The compliance audit covered the adequacy of the statistical transmission tasks of the organisations managing administrative data sources and the obligation to compile an annual quality report. The performance audit assessed the practices developed by the members of the Official Statistical Service to measure the performance of statistical activities.

The audit found that in 2019–2020 the members of the Official Statistical Service defined the organisational and operational arrangements for the performance of statistical duties in their internal regulations in accordance with the provisions of the Act on Public Finances and of Government Decree 368/2011 (XII.31.) on the implementation of the Act on Public Finances (hereinafter: Public Finances Implementation Decree). The organisations managing administrative data sources defined the tasks and responsibilities related to the transmission of statistical data in their internal regulations, as required by the Public Finances Implementation Decree. With the exception of the Hungarian Intellectual Property Office (hereinafter: HIPO), the National Public Health Centre (hereinafter: NPHC), the Hungarian Prison Service Headquarters (hereinafter: HPSH) and the Ministry of Innovation and Technology (hereinafter: MoIT), the organisations managing administrative data sources had cooperation agreements in place to cover the administrative data transfers audited by the SAO.

The audit pointed out that, contrary to the provisions of Act CLV of 2016 on Official Statistics (hereinafter: Official Statistics Act), in the years 2019–2020, there were no cooperation agreements in place with the data

recipient member of the Official Statistical Service in the following cases:

- between HIPO and the Hungarian Central Statistical Office (hereinafter: HCSO) for verified OSAP administrative data transmission no. 2340 entitled Patent Data,
- between the NPHC and the Ministry of Human Capacities (hereinafter: MoHC) for the verified OSAP administrative data transmission no. 1560 entitled Aggregate of Foodborne Disease Outbreaks,
- between the HPSH and the MoI for the verified OSAP administrative data transmission no. 2349 entitled Report on the Activities of Probation Officers in Prisons, and
- between the MoIT and the HCSO for the verified OSAP administrative data transmission no. 2443 on Data on Projects Involved in EU Funded Tangible Assets.

The audit found that the HCSO, the Ministry of Agriculture and the MoI had practices in place to measure the performance of their statistical activities.

LOCAL LEVEL OF PUBLIC FINANCES

REVIEW OF THE MUNICIPAL REGULATIONS ON THE DISTRIBUTION OF REVENUES TO BE SHARED BETWEEN THE MUNICIPALITY OF BUDAPEST AND THE LOCAL GOVERNMENTS OF THE DISTRICTS IN 2023

Act CXXXIII of 2006 on the Sharing of Resources Between the Municipality of Budapest and the Local Governments of the Districts (hereinafter: Act on Resource Sharing), which sets out the revenues shared by the Municipality of Budapest and the districts and the share ratios, imposes

on the State Audit Office of Hungary the duty of auditing the Resource Sharing Decree and the practice of resource sharing.

In 2023, the Municipality of Budapest and the local governments of the districts shared in the revenues from the business tax established by the General Assembly of the Municipality of Budapest, the local tourism tax and the late payment surcharges and fines imposed in connection with the local taxes, as is set out in the Act on Resource Sharing.

The SAO found that the Municipality of Budapest followed a properly regulated procedure when drafting and adopting the Resource Sharing Decree for 2023. The revenue projections for resource sharing were sound.

The resource sharing and its financial accounting were in compliance with the Resource Sharing Decree, but the Resource Sharing Decree did not adequately regulate the sharing and financial accounting of the tourism tax revenue collected in the month of January 2023.

The SAO found that the determination of local tax-related expenditures related to the operation of the local government tax authority of the Capital, which were taken into account in the resource sharing, was sound until the draft Resource Sharing Decree was prepared. However, the Resource Sharing Decree was not sound when it was submitted to and adopted by the General Assembly of the Municipality of Budapest, because the factual data for December 2022 were not taken into account. The accounting of expenditure advances for 2023 was regular. The comparison of the expenditure advances accounted for in 2022 and the expenditure actually eligible was completed in 2023, and the difference was settled with each district in accordance with the rules.

Based on the findings of the audits, the SAO made a recommendation to the Mayor and the Chief Clerk to correct the irregularities detected.

Table 3: Amount of revenues and expenditures to be shared in the Resource Sharing Decree

Revenues/expenditures to be shared	Planned amount to be shared (HUF million)	Planned share of Budapest-Capital (HUF million)	Planned share of districts (HUF million)	Actual figures January–September 2023 (HUF million)	Actual versus plan, January–September 2023 (%)
Local business tax	503 000.0	271 620.0	231 380.0	466 781.4	92.8
Tourist tax passed on by the districts for introduction	15.6	8.4	7.2	12.1	77.2
Surcharges and penalties related to taxes levied	1400.0	756.0	644.0	1 707.7	122.0
Total revenue to be shared	504 415.6	272 384.4	232 031.2	468 501.2	92.9
Expenditures relating to collection of local taxes	700.0	378.0	322.0	-	-

The recommendations concerned the preparation and submission to the General Assembly of the decree on the sharing of revenues between the Municipality of Budapest and the local governments of the districts for the year 2024. The Chief Clerk and the Mayor prepared an action plan on the recommendations, which was accepted by the SAO.

AUDIT OF LOCAL GOVERNMENT ACTIVITIES RELATING TO THE LOCAL BUSINESS TAX

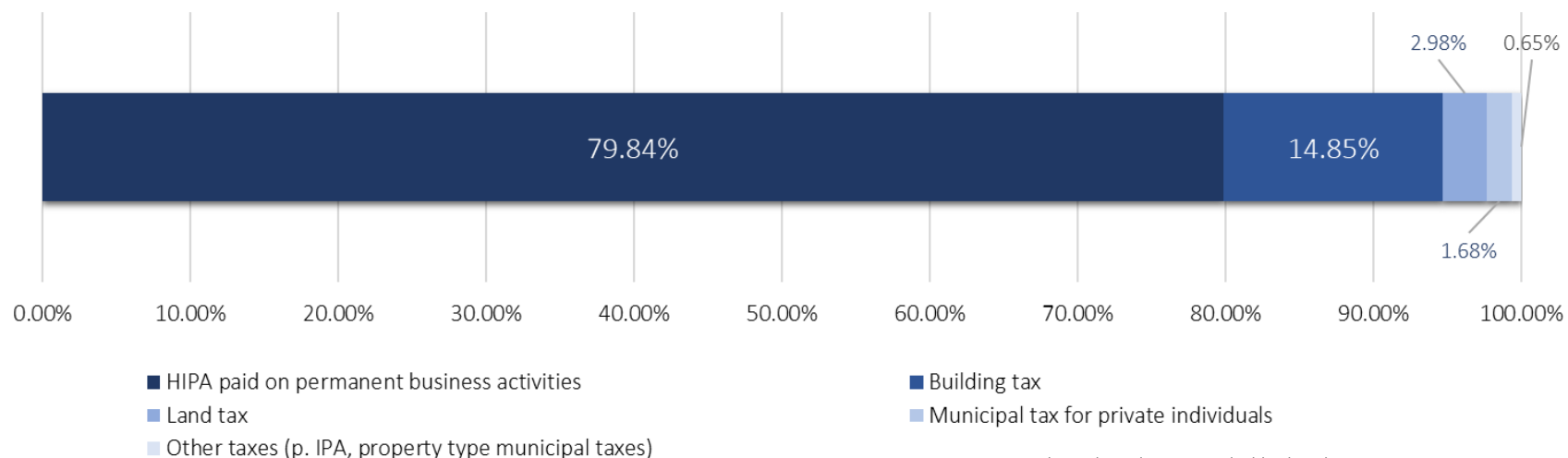
Local taxation plays a significant role in the financial management of local governments, both in terms of its socio-political importance and its volume. In 2020, 99.2% of the local governments made use of the possibility to introduce local taxes, with more than 90.0% of the local governments introducing a local business tax. On average, local tax revenues accounted for about one third of local governments' budget revenues, and local business tax represented about 80.0% of those local tax receipts (Chart 18).

Local taxation includes the determination of the tax rate and the establishment of tax concessions and exemptions by the local government, and the collection of taxes, tax audits and the recovery of arrears by the clerks in their role as the local tax authority. It is in the interests of all concerned that this tax activity is in line with the legal regulations, and provides the revenue needed to support the local government and ensures the survival of local businesses.

The SAO audited the local business tax activities of 10 local governments and 10 mayors' offices in the years 2018–2020 and, by identifying deficiencies in these audits, it contributed to the regularity of the tax authority activities of local governments and their tax authorities.

The purpose of the audits was to assess whether the decrees of the local governments on local business tax and their drafting were in compliance with the legal regulations, whether the clerk followed the legal regulations when establishing the local rules for the performance of tax administration tasks, and whether the local tax authorities performed their tasks related to local business tax in compliance with the rules.

Chart 18: Distribution of the local tax revenues of local governments in 2020



Source: based on data provided by local governments - SAO own edit

The SAO found that the 10 local governments audited complied with the law when establishing their tax frameworks in 2018–2020 and decided on the local business tax rate in their tax decrees in compliance with the legal requirements. The representative bodies of the local governments of the five villages, three towns and two cities with county rights audited complied with Act C of 1990 on Local Taxes (hereinafter: Act on Local Taxes), and Act XX of 1991 on the Duties and Competences of Local Governments and their Bodies, of the Commissioners of the Republic and of Certain Bodies subject to Central Subordination (hereinafter: Act on Material Competence) when establishing the rules of local business taxation in the local government tax decrees, and creating a basic control and regulatory environment to ensure the proper performance of certain tax authority activities related to local business taxation.

The audits showed that, in 2018–2020, the audited organisations did not always comply with the legal regulations when setting out the rules for the performance of tax administration tasks in their internal decrees.

In contravention of Government Decree 370/2011 (XII.31.) on the internal control system and internal audit of budgetary entities (hereinafter: Internal Controls Decree), there were single cases when the audit trail prepared did not include the process of assessing deferred payments, instalment payments and tax reduction, or the audited tax administration procedures such as tax audits, deferred payments, instalment payments, tax reduction, and enforcement procedures. The clerks of four local governments failed to prepare the audit trail for the entire audited period, and the clerk of one local government failed to do so for the years 2018–2019.

The audits showed that the regulation of the performance of tax authority duties did not fully comply with the legal requirements, because the clerks of some local governments did not regulate the procedure for issuing documents in tax administration matters falling within their material competence in the audited period, ignoring the provisions of Act CLXXXIX of 2011 on Local Governments in Hungary (hereinafter: Act on

Local Governments). Furthermore, in 2018–2020, in contravention of the Public Finances Implementation Decree, the organisational and operational rules of the mayors’ offices of two of the audited local governments did not include the tax administration duties and powers, or the manner of exercising these powers. In contravention of the Public Finances Implementation Decree, there were single cases when the internal rules did not define the procedures or the rules for the external relations of the tax administration unit outside the budgetary entity, nor did they define the responsibilities and powers of the staff of the tax administration unit.

The audits also found that, in 2018–2020, nine local government tax authorities did not comply with the legal regulations when performing certain official and auditing duties related to local business tax.

No tax audits were carried out by the audited local government tax authorities in 2018–2020 (in the case of one local government, in 2019–2020) in order to promote compliance with the obligations provided for in the tax laws.

The audit showed that, with some exceptions, the local government tax authorities audited followed the legal requirements and their internal regulations when deciding on the applications for payment reductions for local business tax.

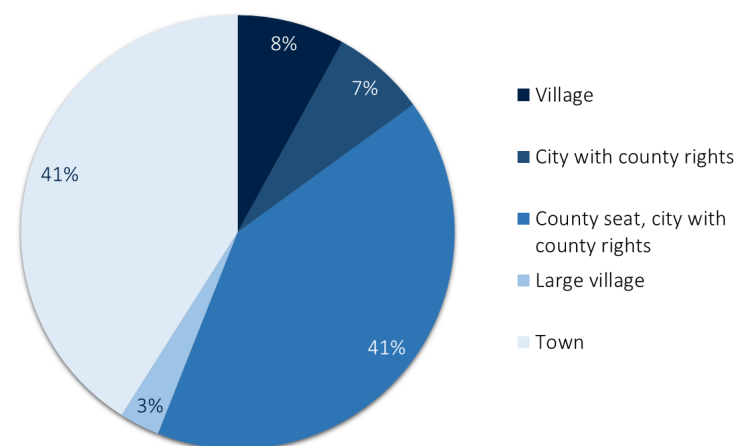
There were three local government tax authorities in 2018–2020 and one in 2020 that complied with the legal requirements in respect of their measures taken to collect local business tax. The tax authority notified debtors to pay their debt. Enforcement procedures were initiated on the basis of enforceable instruments.

AUDIT OF THE BUILDING TAX ACTIVITIES OF LOCAL GOVERNMENTS

The SAO has general powers to audit the tax activities of local governments. The role of local taxes in the financial management of local governments is indicated by the fact that local tax revenues accounted for 34.5% of the total budget revenues of local governments in 2019, 32.5% in 2020, 31.1% in 2021 and 31.6% in 2022. Of this, local business tax, representing the largest share of revenues, is followed by building tax, which is levied by almost one third of all local governments.

The distribution of the HUF 83,505.5 million of local government building tax revenues in 2021 is shown in Chart 19.

Chart 19: Building tax in 2021, by type of settlement (national data)



Source: based on data provided by audited organisations - SAO own edit

For the years 2019 and 2022–2023, the SAO audited three local governments in terms of their building tax decrees and the activities of the local government tax authority, the collection of tax revenues, the

evolution of building tax arrears, the achievement of the municipal development and tax policy objectives, changes in the conditions and practices of the tax authority in the administrative performance of building tax duties, and the establishment and operation of certain elements of the internal control system concerning building tax.

The audit found that the local tax decrees of the local governments did not comply with the provisions of the Act on Local Taxes. The conditions for the performance of the administrative functions of building taxation were in place, and tax administration practices did not change during the audit period. The local government tax authorities did not perform the tax administration activities related to the building tax properly as, in contrast to the requirements set out in Act LXVI of 1995 on Public Records, Public Archives and the Protection of Private Archival Material (hereinafter: Act on Archives), the clerks did not fully ensure the safekeeping of tax levy resolutions, the proper communication and publication of these resolutions in accordance with the legal regulations, the observance of the time limit for the execution of the resolutions and the initiation of enforcement proceedings for the collection of tax arrears. The local government tax authorities did not carry out any tax audits pertaining to building tax.

The SAO's audit showed that some elements of the internal control system were not properly set up and operated. The local governments did not operate a financial incentivisation system to facilitate the efficient collection of the taxes under their jurisdiction. The clerks established and operated an internal audit operation in line with the Act on Public Finances, but the internal audit function did not audit the local taxation activities or assess the compliance of the local government tax authority's operations with the legal regulations and internal rules.

On the basis of the findings of the audits, the SAO made a total of 12 recommendations to the heads of the three local governments

audited, in order to correct the irregularities detected. The recommendations concerned compliance with the administrative deadlines, the proper issuing of documents, the proper communication of decisions, the creation of audit trails, compliance with the rules on document retention and the conducting of internal audits. The heads of the audited organisations have prepared and sent their action plans to the SAO, which has accepted their plans.

AUDIT OF THE INTEGRITY OF BUSINESS ORGANISATIONS IN MAJORITY STATE OR LOCAL GOVERNMENT OWNERSHIP

According to the Fundamental Law of Hungary, organisations owned by the state and local governments must be managed independently and responsibly in accordance with the requirements of legality, expediency, and effectiveness, as defined by law. All organisations that use public funds are accountable to the public for the management of those funds.

Business organisations, majority-owned or controlled by the state and local governments provide a wide range of public services, with core tasks including property and asset management, the management of buildings and green spaces, drinking water supply and wastewater treatment, waste management, social services, sports, and arts. Their performance of their roles directly affects a wide section of society, so the quality of the operation of business organisations with a public-service mission also impacts the lives of the citizens who use them.

For the year 2021 and the first half of 2022, the SAO audited 1,574 business organisations in majority state or local government ownership in order to assess whether they have in place accounting regulations and remuneration rules, as well as integrity rules within their internal control system.

57.1% of the 1,574 audited business organisations in majority state or local government ownership had the accounting, remuneration and integrity rules required by legal regulations in place.

During the audit, the SAO sent a call for action to the authorised representative managers of the audited business organisations, to draw their attention to the errors and deficiencies found. As a result of the actions taken by the managers, by the end of the audit, 91.0% of the business organisations subject to Government Decree 339/2019 (XII.23.) on the internal control system of publicly owned business organisations (hereinafter: Decree on the Internal Control of Companies), 83.8% of the business organisations subject to the Internal Controls Decree, and 80.8% of the business organisations not legally obliged to establish an internal control system had accounting, remuneration and integrity rules in place.

As a result of the measures, the percentage of audited business organisations with regulations to improve integrity in place in addition to the rules required by legal regulations increased from 65.4% to 79.9%.

AUDIT OF LOCAL GOVERNMENTS – THE ADEQUACY OF THE PAYMENT AND ACCOUNTING OF CASH FLOW EXPENDITURES

The SAO audited the regularity of the payment of, and accounting for, the economic events of seven local governments, seven joint local government offices and six institutions in the years 2022–2023.

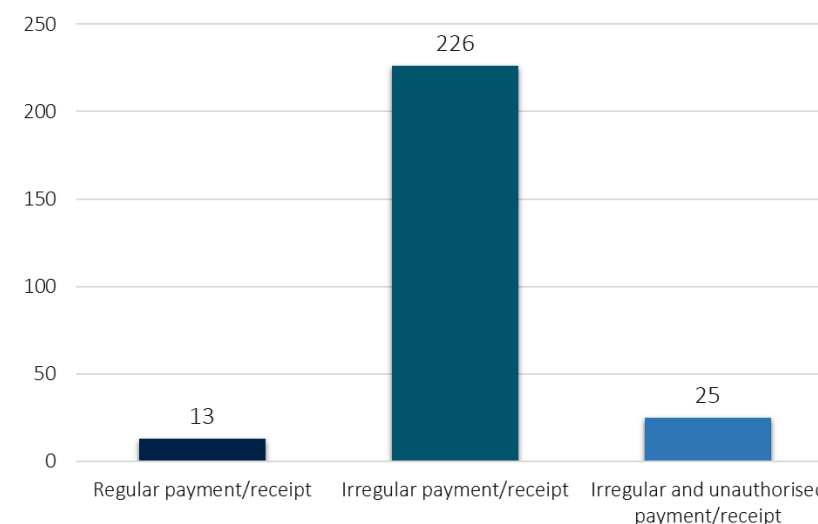
The audit assessed the adequacy of the payment and accounting of cash flow expenditures of local governments and their institutions, and the soundness and accounting from the utilisation of assets, recorded in the cash flows of local governments, and the appropriateness of their use for the performance of public services.

The audit showed that the local governments and institutions audited did not comply with the legal requirements in the execution and accounting of expenditure transactions. In three local governments, the decisions on revenues from the utilisation of assets were taken by persons other than those authorised. A typical error was that, for economic events requiring a prior written commitment, a written commitment was not fully in place or the financial countersignature was missing, in contravention of the Public Finances Implementation Decree.

In several cases, there was a risk of unauthorised payments, as the certification of performance was not carried out correctly or at all, contrary to the requirements of the Act on Public Finances and the Public Finances Implementation Decree.

In all the local governments audited, the audits found irregularities in the accounting of advances paid for purchases and in the award and payment of municipal grants. The regularity of the economic events audited is shown in Chart 20.

Chart 20: The regularity of payments in cash flow (number)



The audit revealed that, contrary to the requirements of the Accounting Act, three local governments were missing the supporting documents for payments for several economic events audited. Thus, in contravention of the provisions of the Act on Local Governments, it was not possible to verify whether the local government used the budget funds for the performance of its statutory and voluntary tasks.

The audit revealed that, in contravention of the Internal Controls Decree, controls were not implemented to ensure that decisions on the utilisation of assets were sound from the point of view of expediency and economy. The grounds for the decisions on the utilisation of assets were not supported with evidence, no background calculations were carried out to establish the rent figures, no provision was made for the payment of utility charges by the tenants of rented premises, and therefore no calculations were done to examine whether the rents would cover the related costs of the local government.

The SAO made 154 recommendations to the heads (mayor, clerk, head of institution) of the audited organisations to remedy the irregularities detected. The recommendations were aimed at ensuring the proper exercise of financial management powers, the proper implementation of the budget in accordance with legal regulations, the regularity of asset management, the proper functioning of internal audit, and the updating of internal regulations.

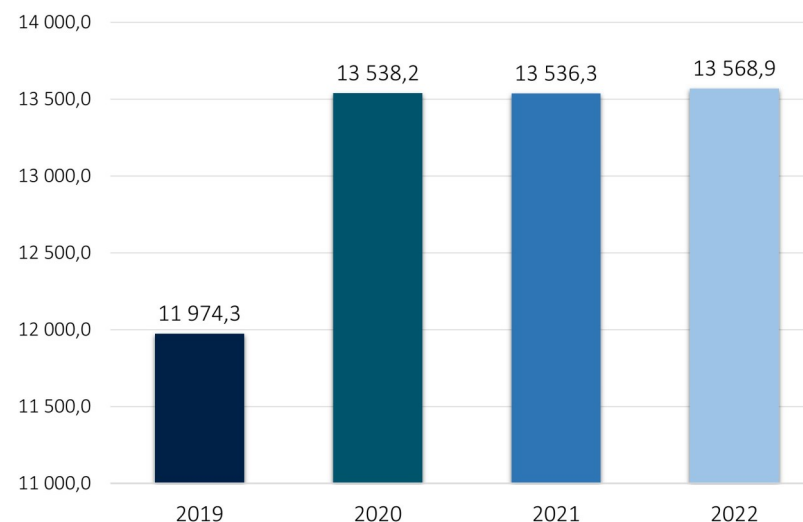
The heads of all but three of the organisations audited prepared and sent to the SAO their action plans, which were accepted by the SAO. The action plans sent by the heads of two audited organisations were returned for corrections and additions, and one audited organisation was wound up without legal succession on 31 August 2023, so the four recommendations to it became obsolete.

AUDIT OF THE REAL ESTATE MANAGEMENT ACTIVITIES OF LOCAL GOVERNMENTS AND BUDGETARY ENTITIES

The assets of local governments are used in order to fulfil the functions and purposes of local governments, including the provision of public services to the population and making available the necessary infrastructure. Municipal real estate are assets of considerable material value, so it is of the utmost importance to enforce the requirements of responsible management of national assets. The SAO audited the real estate management activities of two local governments and one budgetary entity for the years 2019–2022.

The audit assessed whether in the course of performing their property management tasks the local governments took into account the need to preserve the value of their assets, to maintain them in good condition and to increase their stock. The changes in the stock of tangible assets of the audited organisations during the audit period are shown in Chart 21.

Chart 21: Changes in tangible assets of audited entities (HUF million)



Source: based on the 2019–2022 budget implementation reports of local governments, SAO own edit

The audit found that, with minor deficiencies, the audited elements of the internal control system of the property management and property utilisation activities and processes were in place, but the auditees did not always operate the controls defined in their internal regulations. Overall, the utilisation of the real estate was not in conformity with the rules, as in several cases the utilisation decision was not taken by the Body of Representatives.

The audit revealed that, in the absence of a transparency declaration during the sale of real estate, the audited organisations were unable to prove that the transfer of ownership of national assets had been to a transparent organisation, in contravention of Act CXCVI on National Assets (hereinafter: Act on National Assets). Furthermore, the utilisation of real estate and the implementation of measures relating to the investment in real estate were not regular, as expenditure payment approval orders were not always validated, contrary to the Act on Public Finances and the Public Finances Implementation Decree.

The audit revealed that the clerk of one of the auditees did not keep a real estate register in accordance with the rules, in contravention of the Act on Local Governments and Government Decree 147/1992 (XI.6.) on the registration of, and data supply on, real estate assets owned by local governments. The entry of the properties in the records and balance sheet was not properly documented, as no documentation recording their addition to inventory or entry into service was prepared, contrary to the Accounting Act. Several of the audited organisations did not conduct quantitative stocktaking at least once every three years during the audited period, in contravention of the Accounting Act. As a result of these deficiencies, the real estate headings in the balance sheets in the budget implementation reports were not supported in the audit period.

Based on the findings of the audits, the SAO made a total of 39 recommendations to the heads of the three audited organisations to remedy the irregularities identified. Recommendations were made to establish and properly operate control activities, to ensure the regularity of asset management and recordkeeping, to comply with the obligation of stocktaking, to supply the missing transparency declarations and to ensure that internal regulations are maintained up to date in line with the requirements.

The head of the budgetary entity prepared and sent to the SAO, within the deadline, an action plan which included measures in line with the

audit findings and which the SAO considered appropriate to remedy the deficiencies identified. The SAO requested two of the local governments to supplement their action plans.

CHANGES IN THE FINANCIAL SITUATION OF THE GÁRDONYI GÉZA THEATRE

The SAO audited the measures taken to maintain the financial equilibrium of the Gárdonyi Géza Theatre (hereinafter: Theatre) in the years 2021–2022 and the first quarter of 2023.

The audit concluded that the financial balance of the Theatre was generally secured by the actions of the Theatre and the Local Government of Eger, City with County Rights (hereinafter: the Local Government). The budget, reporting and financial management data confirm that the Theatre maintained its financial equilibrium, its liquidity was stable and its payment obligations were met. The audit showed that the initial appropriations of the governing body's subsidy for 2021 and 2022 did not meet the requirement of economic justification, and the individual measures by the proprietary body were not based on clear and appropriate detailed rules.

More than half of the Theatre's revenue in 2021 and almost half in 2022 was the fixed annual subsidy received under a joint operating agreement between the Local Government and the Ministry of Culture for the period until 31 December 2024. In 2022, the amount of the grant under the joint operating agreement covered 92.5% of staff costs and contributions. During the audit period, the Theatre's operating income was significantly lower than the governing body's subsidy, and stood at 19.5% of the latter in 2021 and 18.7% in 2022. The Theatre's revenue-generating capacity declined significantly during the audit period, which was linked to the pandemic and the energy crisis, and the temporary theatre closures caused by these.

The audit showed that the Theatre's total expenditures in 2022 were 60.1% higher than in 2021, mainly covered by the use of the previous

year's residual balance. As of the end of the on-site audit, neither the Local Government nor the Theatre had conducted a backtest against the expected results of the measures taken to increase revenue and reduce expenditure in order to offset the negative environmental impact on the financial situation of the Theatre (temporary closure of the Theatre, energy saving measures). In April 2023, the General Assembly decided to set up a working group to review the operation, financial situation and organisational structure of the Theatre.

Based on the findings of the report, the SAO made a recommendation each to the Mayor and the Director of the Theatre. The recommendations concerned submitting the report to the Body of Representatives and to revise and amend the organisational and operational rules of the Theatre. The Mayor presented the report of the SAO to the Body of Representatives, and the Director of the Theatre sent their action plan to the SAO within the deadline; the plan was accepted.



ORGANISATIONS OUTSIDE PUBLIC FINANCES

AUDIT OF CAMPAIGN FUNDS – AUDIT OF THE ACCOUNTING OF FUNDS SPENT ON THE 2022 PARLIAMENTARY ELECTION CAMPAIGN BY INDIVIDUAL CANDIDATES

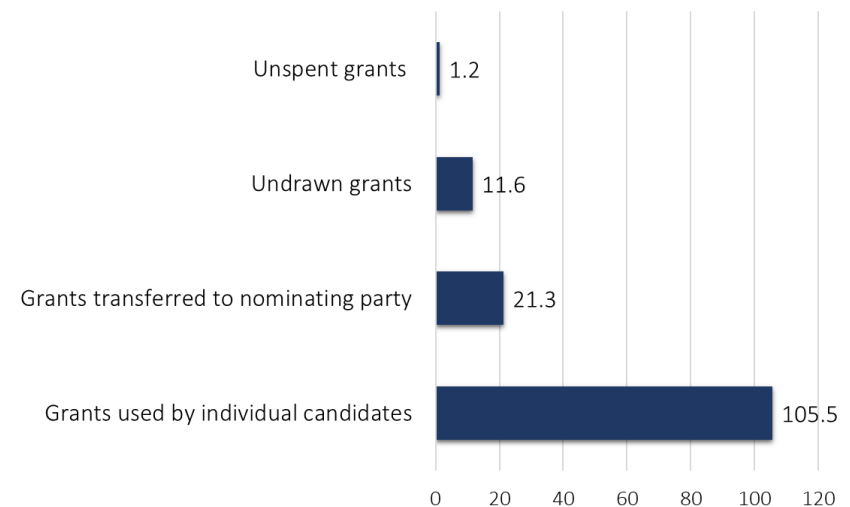
According to the Campaign Financing Act, the SAO must audit the use of state subsidies for elections within one year of the election mandatorily for candidates who have been elected to the National Assembly and, if requested, also for individual candidates who have not been elected. The SAO's audit included the legality audit of campaign financing for individual candidates and contributed to the enforcement of sanctions in the case of breaches of the limits and prohibitions laid down in the law.

In the course of the audit, the SAO assessed whether the individual candidates elected to the National Assembly in the elections held on 3 April 2022, and those who were not elected but were requested to be audited by another candidate or a nominating organisation, complied with the provisions of the Campaign Financing Act, and whether the grant of one million forints from the central budget to which they were entitled under the legal regulations was used to finance their campaign expenses in the election campaign period. The SAO also audited whether individual candidates complied with the campaign expenses limit of five million HUF per candidate set by the Campaign Financing Act.

In accordance with the provisions of the Campaign Financing Act, the SAO audited the use of state funding for the elections for a total of 118 individual candidates who won seats in the year following the parliamentary elections of 2022; the audit period stretched from the 50th day before voting day to the 60th day after the parliamentary elections.

The audit showed that 18 of the 118 individual candidates audited had waived a total of HUF 21.3 million in state funding for the benefit of their nominating party. The Treasury concluded agreements with 99 individual candidates in accordance with the provisions of the Campaign Financing Act, with the content specified in Decree 69/2013 (XII. 29.) of the Ministry for National Economy on the subsidising of campaign costs in the election of Members of the National Assembly and provided a total amount of HUF 117.1 million in grants to the candidates. Of the 99 individual candidates who had signed an agreement with the Treasury, two candidates did not draw any funding, while the other 97 candidates spent a total of HUF 105.5 million on campaigning. The amount of undrawn aid was HUF 11.6 million. One candidate neither waived the subsidy in favour of their nominating party nor entered into an agreement with the Treasury on their own behalf, so they did not draw the HUF 1.2 million subsidy (Chart 22).

Chart 22: Spending of grants for the 2022 election campaign (HUF million)



The audit found that 94 of the 97 individual candidates who had drawn the amount of the subsidy used it in accordance with the legal requirements. In the case of one of the three candidates who did not fully comply with the requirements, the accounting documents were not in the candidate's name, in contravention of the Campaign Financing Act. One receipt each in the accounts of further two candidates did not fully comply with the requirements of the Campaign Financing Act, as they had used the services recorded on the receipts outside the campaign period specified in the Election Procedure Act and Decree 1/2022. (I.11.) of the Ministry of Justice establishing the deadlines and timelines for the parliamentary elections and national referendum of 3 April 2022.

In the case of these three candidates, the Treasury issued a decision to recover twice the amount of HUF 641.5 thousand of the irregularly used central budget subsidies. The candidates have repaid the amount set out in the Treasury's decision.

AUDIT OF THE FINANCIAL MANAGEMENT OF POLITICAL PARTIES

Based on Article 5(11)(a) of the Act on SAO, the SAO audits the financial management of political parties according to the criteria of legality in line with the Act on Political Parties. According to the provisions of the Act on Political Parties, the SAO audits the financial management of parties that have received regular subsidies from the central budget every two years.

In 2023, the SAO audited the financial management of the Christian Democratic People's Party (hereinafter: KDNP), the Hungarian Two-Tailed Dog Party (hereinafter: MKKP), the FIDESZ – Hungarian Civic Alliance (hereinafter: FIDESZ) and the Momentum Movement (hereinafter: Momentum) for the years 2020–2021.

The audit covered the compliance of the published annual financial statements of the parties with the legal requirements, the relevant legal regulations and internal rules on accounting and financial management, the utilisation of funds that can be used for the operation of the parties in

accordance with the law, and the conduct of business activities authorised under the Act on Political Parties. The purpose of the audit was also to assess whether the parties have implemented the tasks set out in the respective action plans drawn up in accordance with the findings of the SAO's previous report.

The SAO's audits of FIDESZ and Momentum revealed minor, mainly administrative, deficiencies.

The audit pointed out that FIDESZ and Momentum prepared their financial statements for 2020 and 2021 within the deadline and with the content required by the Act on Political Parties and published them in the Official Bulletin annexed to the Hungarian Gazette. The financial statements were supported by general ledger and analytical records.

The audit found that the design of the accounting rules and the content of the internal regulations concerning the financial management of FIDESZ and Momentum were, on the whole, in compliance with the legal requirements. Momentum's regulation showed improvements in several areas as a result of the previous SAO audit for the years 2018–2019.

The audit showed that FIDESZ and Momentum derived revenues from sources permitted under the Act on Political Parties, and, based on the items sampled, they did not accept any financial contributions from legal entities, organisations without legal personality, other states, foreign organisations or non-Hungarian citizens in the audited period, in compliance with the provisions of the Act on Political Parties.

FIDESZ and Momentum used and accounted for the funds necessary for their operations, in particular the budgetary grants and other subsidies and donations, in accordance with the rules. In the course of their financial management activities, they complied with the provisions of the legal regulations and internal regulations when paying the expenditure items audited.

The SAO found regularity deficiencies at KDNP in three areas.

The audit pointed out that KDNP prepared its financial statements for 2020 and 2021 within the deadline and with the content required by the Act on Political Parties and published them in the Official Bulletin annexed to the Hungarian Gazette. The financial statements were supported by data in the general ledger and analytical records. In the financial statements, contributions exceeding HUF 500,000 were disclosed separately, in compliance with the provisions of the Act on Political Parties.

The audit found that the design of the accounting rules and the content of the internal regulations for the financial management of KDNP complied with the legal requirements, but the system of accounts in force in the audited period did not include the number and description of all the accounts designated for use, in contravention of the Accounting Act.

The audit showed that, in the audited period, KDNP deviated from the provisions of the Accounting Act in that the data of the documents of economic transactions and events involving payments were not recorded in the accounting system at the same time as the payments were executed.

The audit showed that KDNP derived revenues from sources permitted under the Act on Political Parties, and, based on the items sampled, it did not accept any financial contributions from legal entities, organisations without legal personality, other states, foreign organisations or non-Hungarian citizens in the audited period, nor any anonymous donations, in compliance with the provisions of the Act on Political Parties.

The SAO's audit of MKKP found serious regulatory and accounting deficiencies and the acceptance of illicit monetary contributions.

The audit found that the financial statements of the MKKP for the years 2020 and 2021 did not comply with the legal requirements, and that the

MKKP did not use and account for the funds, budget allocations and other subsidies and donations for its operations in accordance with the rules.

The SAO's audit also found that the MKKP accepted HUF 5.6 million in financial contributions from a legal entity – its own foundation – during the audited period, despite the legal prohibition.

The President of the SAO, in accordance with the provisions of the Act on Political Parties, sent a letter to the co-president of the MKKP in connection with the acceptance of the illicit financial contribution, to ensure payment to the central budget of the value of the illicit financial contribution.

To remedy the deficiencies, the SAO made three recommendations to the President of KDNP, 10 to the President of MKKP and one to the President of Momentum; in response, the parties submitted their action plans within the deadline. The measures set out in the action plans were considered by the SAO to be appropriate to remedy in the future the irregularities identified.

AUDIT OF THE LEGALITY OF THE FINANCIAL MANAGEMENT OF PARTY FOUNDATIONS RECEIVING STATE FUNDING IN THE YEARS 2020–2021

According to the Act on Foundations Supporting the Operation of Parties, the SAO is responsible for auditing the legality of the financial management of party foundations established for the purpose of scientific, knowledge-sharing, research and educational activities in the interest of the development of political culture. The Act on Foundations Supporting the Operation of Parties requires the SAO to audit every two years the financial management of party foundations that have received state funding. In 2023, the legality of the financial management of the Barankovics István Foundation, the Alliance for a Civic Hungary, the 'Indítsuk be Magyarországot' Foundation (Let's Get Hungary Started Foundation) and the 'Savköpő Menyét' Foundation (Acid Spitting Weasel Foundation) in the years 2020–2021 was audited.

During the audits, the SAO assessed the financial management of the party foundations, the regulation and regularity of their accounting, the fulfilment of the obligation to prepare simplified annual accounts and annual reports on the activities of the party foundations, and the implementation of the tasks set out in the action plans in accordance with the findings of the respective previous report of the SAO.

The audit found that, in the audited period, the deed of foundation of the **Barankovics István Foundation** set out the framework for its operations. Its accounting rules ensured that both operations and accounting were in compliance with the Accounting Act.

The audit showed that the Barankovics István Foundation financed its operations only from grants received from the central budget in the audit period. It recorded its revenues in accordance with the legal requirements, but there were two instances in 2020 and six in 2021 when it entered in its accounting records on the use of state funding information based on supporting documents that were missing some of the content required by legal regulations, contrary to the requirements of the Accounting Act. In the year 2021, the recording of economic events did not comply with the requirements of the Accounting Act for two further items in the audit sample.

The audit also found that the Barankovics István Foundation prepared and published its activity reports and its simplified annual accounts in accordance with the legal requirements during the audited period, but did not fully comply with the provisions of the Accounting Act and the rules on the inventory of assets and liabilities.

The audit showed that the deed of foundation of the **Alliance for a Civic Hungary Foundation** established the main decision-making and management body of the Foundation in accordance with the legal requirements, it defined its purpose and activities, and the composition of the Board of Trustees. It had an accounting policy, asset and liability

inventory and stocktaking policies, valuation policies, cash management policies and a system of accounts in place in accordance with the legal requirements.

The audit found that the accounting records of grants at the Alliance for a Civic Hungary Foundation complied with the requirements of the Accounting Act, and that the costs and expenses of its audited activities were duly accounted for in the years 2020 and 2021.

The party foundation has prepared and published its activity reports and its simplified annual accounts in the audited period, and therein complied with the provisions of the Accounting Act concerning valuation and the availability of supporting inventories.

The audit revealed that the deed of foundation of the '**Indítsuk be Magyarországot**' Foundation set out the framework of its operations in accordance with the legal requirements, established and documented an accounting policy in compliance with the Accounting Act and prepared the relevant internal regulations specified in the Accounting Act.

The audit found that the accounting records of grants complied with the requirements of the Accounting Act, and that the party foundation accounted for the costs and expenses of its audited activities properly in the years 2020 and 2021.

The audit showed that the '**Indítsuk be Magyarországot**' Foundation prepared and published its activity reports and its simplified annual accounts in the audited years in compliance with the legal regulations. It prepared its simplified annual accounts for 2020 and 2021 in accordance with the legal regulations but published its simplified annual accounts for 2021 after the statutory deadline. In terms of balance sheet item classification, valuation and inventory support, the simplified annual accounts complied with the requirements of the Accounting Act.

The audit found that the '**Savköpő Menyét**' Foundation had in place in the audited period the internal regulations mandatory under the Accounting

Act, but their content did not comply with the provisions of the Accounting Act, they were not appropriate to the features and the circumstances of the party foundation, and the internal regulations contained rules on the financial management of the founding party.

The 'Savköpő Menyét' Foundation, contrary to the provisions of the Act on Political Parties, provided HUF 1.690.651 in total in forbidden monetary contributions to the founding party in 2020 and HUF 3.922.773 in 2021 by paying the rent of the property shared with the founding party during the audited period and financing the expenses related to a joint event instead of the founding party.

The audit showed that in the audited period the provisions of the Accounting Act were not observed in the accounting of expenditures, and in several cases economic events were recorded in the books without supporting documents or on the basis of improperly issued supporting documents.

The audit found that the 'Savköpő Menyét' Foundation prepared reports on its activities for the years 2020 and 2021, but the reports did not include the statement on the use of assets and the statement of the purpose-specific allocations as required by the Act on Foundations Supporting the Operation of Parties, and the 2021 report did not include the statement on the use of grants. The Foundation did not disclose its annual reports in the Official Bulletin published as an annex to the Hungarian Gazette, even though this is required by the Act on Foundations Supporting the Operation of Parties.

The audit found that the 'Savköpő Menyét' Foundation prepared its simplified annual accounts for 2020 and 2021, published the 2020 simplified annual accounts on time and the 2021 simplified annual accounts after the deadline.

The simplified annual accounts for 2020 and 2021 did not give a true and fair view of the asset, financial and income status of the 'Savköpő Menyét' Foundation.

The follow-up audit has found that the 'Savköpő Menyét' Foundation did not implement the tasks set out in the action plan and did not develop an accounting policy appropriate to its features and circumstances, in contravention of the Accounting Act. At the end of the audit period, the irregularity previously identified by the SAO persisted.

In its reports, the SAO made seven recommendations to the Chairman of the Board of Trustees of the Barankovics István Foundation, one recommendation to the Chairman of the Board of Trustees of the Alliance for a Civic Hungary Foundation, one recommendation to the Chairman of the Board of Trustees of the 'Indítsuk be Magyarországot' Foundation and twelve recommendations to the Chairman of the Board of Trustees of the 'Savköpő Menyét' Foundation. The party foundations prepared action plans to correct the errors and irregularities identified in the reports and to prevent their recurrence in the future.

AUDIT OF THE MEDIA SERVICE SUPPORT AND ASSET MANAGEMENT FUND (MTVA)

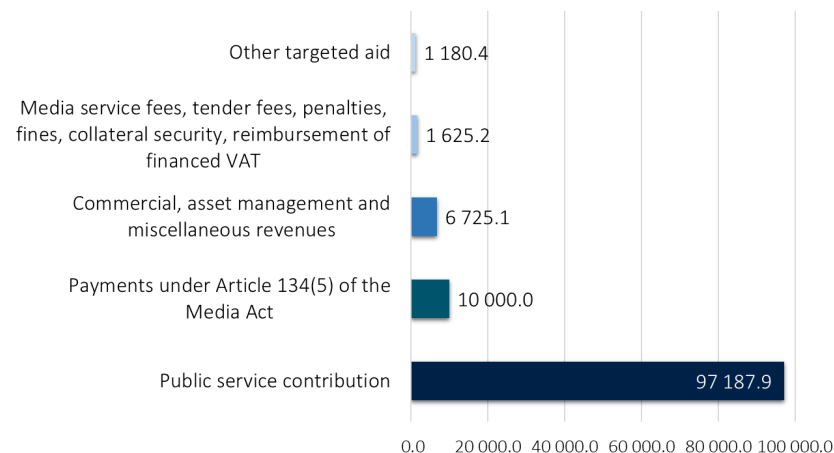
In accordance with Article 6(2) of Act CXLIX of 2021 on the Implementation of the 2020 Unified Budget of the National Media and Infocommunications Authority, in force since 21 December 2021, the SAO audited the financial management of MTVA and, in this context, the Media Council of the National Media and Infocommunications Authority for the period from 1 January 2021 to 31 May 2022.

The audit assessed whether the resources provided for the performance of public services (Chart 23) and the public service reserves were spent in an accountable and transparent manner, and whether the funding provided to the MTVA for the performance of public services exceeded the net cost of those public services.

During the audit, the SAO found that the MTVA's internal rules provided the framework for the proper recording and accounting of resources, and its accounting system ensured that the data required to fulfil its reporting obligations were available. The accounting of the audited expense items

was in compliance with the rules, and the items were related to the accomplishment of the public media service objectives defined in Act CLXXXV of 2010 on Media Services and on the Mass Media (hereinafter: Media Act), and to the performance of public service tasks.

Chart 23: The MTVA's sources of revenue in 2021 (HUF million)



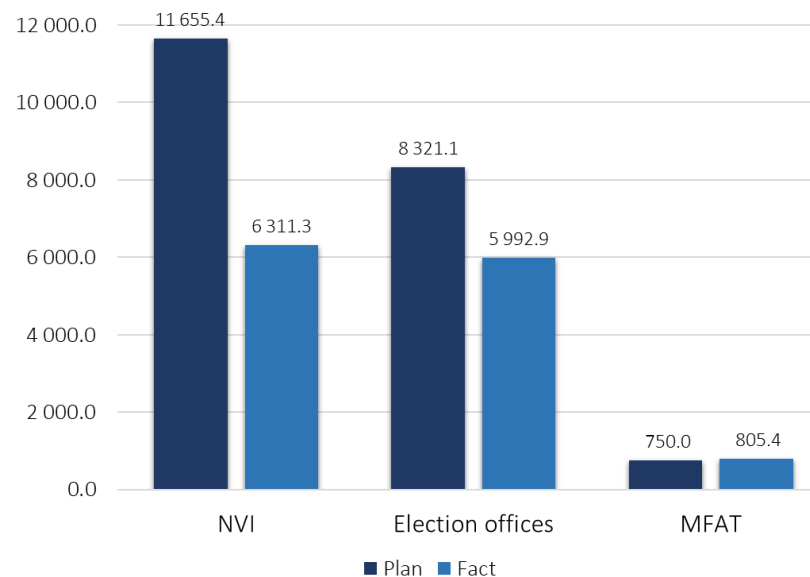
Source: based on the MTVA's 2021 budget outturn report - SAO own edit

The audit found that the MTVA had used the funds granted for the performance of public services in accordance with the objectives. The financing of the MTVA in 2021 complied with the provisions of the applicable legal regulations, and the financing provided for the performance of its public services did not exceed the net cost of those public services. The rules on the provisioning of the unused part of the funds granted for the performance of public services were complied with.

AUDIT OF THE USE OF FUNDS SPENT ON THE 2022 PARLIAMENTARY ELECTIONS AND NATIONAL REFERENDUM IN A JOINT PROCEDURE

Based on its statutory obligation, the SAO audited the use of funds spent on the preparation and implementation of the tasks related to the 2022 general election of Members of the National Assembly and the national referendum initiated by the Government, which were held on 3 April 2022 in a joint procedure. It audited the National Election Office (hereinafter: NVI), election offices selected for the audit and the MFAT, which was responsible for conducting the voting at foreign representations (Chart 24).

Chart 24: Planned and actual expenditures in the parliamentary elections and national referendum of 2022 (HUF million)



Source: based on NPI 2022 aggregated accounts - SAO own edit

In fulfilling its statutory obligation, the SAO assessed the regularity of the use of funds in the preparation and implementation of the 2022 parliamentary elections and the national referendum.

The SAO audited whether the 72 organisations complied with the legal regulations in their planning, use and monitoring of the funds allocated from the central budget for the preparation and conduct of the elections and the referendum.

During the audit, the SAO found that the National Election Office, MFAT and all but one of the audited election offices complied with the rules in the financial preparation for the elections and the referendum. The allocation and management of the funds provided from the central budget for the elections and the referendum and, with the exception of one election office, the use of the available funds were compliant with the rules. The electoral bodies also complied with the rules in the accounting of funds used for the elections and the referendum.

All but three of the election offices carried out their statutory auditing tasks.

As a result of the audit, SAO formulated a recommendation for one local election office concerning the lack of an up-to-date register of persons authorised to commit and certify the performance, and the specimen signatures of such persons.

AUDIT OF THE ACCOUNTING RECORDS OF PUBLIC FINANCE GRANTS OF ASSOCIATIONS AND FOUNDATIONS

The SAO audited, in several stages, whether the NGOs kept records of the state funding they received in accordance with the legal requirements and the terms of the grant agreements. The audits covered 99 NGOs operating as associations or foundations.

The SAO's audit found that the design of the accounting systems of 89 NGOs adequately supported the maintenance of proper accounting records of public finance grants and ensured the verifiability of the use of public funds. The audit found errors at 10 NGOs, where the accounting systems were not set up in accordance with the legal requirements, thus not ensuring the verifiability of the use of public funds.

10 NGOs did not keep appropriate accounting records on the use of the public finance grants that would have allowed tracking and verifying their use of the grants, in contravention of the legal requirements. 70 NGOs kept separate accounts for the public finance grants, as is required in the legal regulations. 57 NGOs provided inadequate information to the public on the use of public funds. As a result of the audit, the SAO made a total of 112 recommendations to 62 NGOs.

AUDIT OF THE REGULARITY OF THE USE OF SUBSIDIES FOR THE PURCHASE OF EQUIPMENT BY SPORTS CLUBS

The SAO audited equipment purchases at 12 organisations, where these purchases were financed with corporate tax subsidies for sports clubs in spectacle team sports under the Corporate Tax Act, which represent a significant share of the sports clubs' budgets.

In its audit the SAO assessed the regularity of the sports clubs' purchases of equipment with corporate tax subsidies, the accounting and recording of equipment purchases, the existence of the equipment and whether the use and utilisation of equipment was in accordance with the provisions of the Sports Development Programme. The audits covered the period from the decision on the use of the selected sport development grant to the date of the on-site audit.

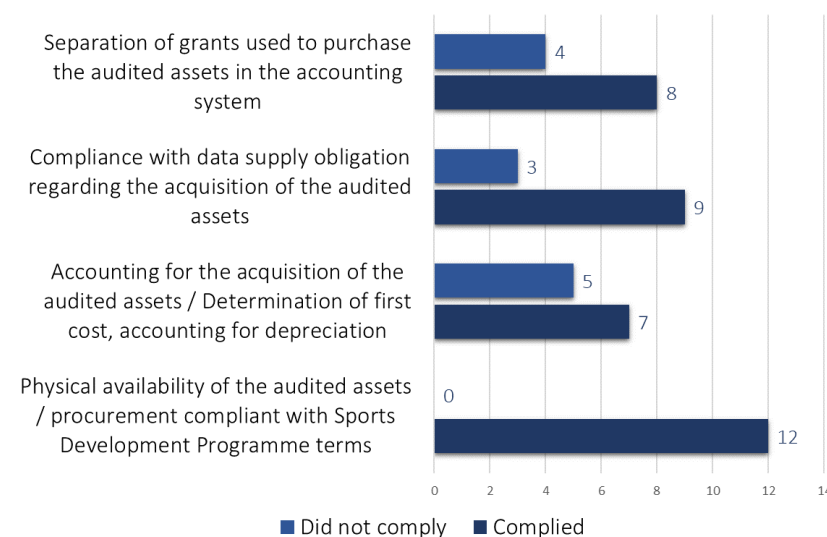
The SAO's audit found that six sports clubs had used the grants received for the purchase of equipment in a regular manner, while a further six

sports clubs were not in compliance overall. The sports clubs audited purchased the equipment approved in the approved sports development programmes.

The audit found that four sports clubs did not comply with the provisions of the Accounting Act in their determination of the cost value of assets and the accounting of depreciation. With the exception of one sports club, the sports clubs fulfilled the accounting and reporting obligations required in Government Decree 107/2011 (VI.30.) on the issuing and use of subsidy certificates for the funding for spectator team sports and rules on accounting for, auditing and repaying such subsidies (hereinafter: Government Decree 107/2011), and, with the exception of one sports club, sent the progress reports and final accounts to the sponsor.

The audit showed that all the sports clubs but one separated the use of grants for the assets audited in their books in accordance with the legal regulations. One sports club did not comply with its accounting and reporting obligations, in contravention of the Accounting Act and the Act on Association Rights (Chart 25).

Chart 25: Experience from audits of sports clubs, the deficiencies of the audited



The audit also found that, contrary to the provisions of the Accounting Act and Government Decree 107/2011 (VI.30.), four sports clubs failed to separate the use of the grants received for the audited assets in their books.

The SAO sent information on the irregularities identified to the Hungarian Football Federation, which, as sponsor, is entitled to carry out a comprehensive audit of the grants paid and accounted for.

The SAO made a total of five recommendations to three of the audited organisations. The sports clubs concerned prepared and sent to the SAO action plans to correct the errors and irregularities identified in the reports and to prevent their recurrence in the future. The SAO accepted the action plans.

EVALUATION OF NON-GOVERNMENTAL ORGANISATIONS CONDUCTING ACTIVITIES CAPABLE OF INFLUENCING PUBLIC LIFE

Pursuant to Article 5(11)(e) of the Act on SAO, the SAO audits in terms of legality considerations the associations and foundations subject to Act XLIX of 2021. Non-governmental organisations conducting activities capable of influencing public life are defined by legal regulations, with the exceptions specified in Article 1(2) of Act XLIX of 2021, as associations and foundations whose balance sheet total for the current year reaches HUF 20.0 million. In its summary report, the SAO summarised the findings of the audit of 98 entities considered to be NGOs carrying out activities capable of influencing public life according to Act XLIX of 2021, as drawn from its audit entitled 'Audit of the accounting records of public finance grants received by associations and foundations' and evaluated the results of the audits of the organisations concerned. The audit covered the accounting records of certain public finance grants, including compliance with the legal requirements on the recording of grant income and the use of grants in the year 2022.

The aggregate balance sheet total of the audited organisations was HUF 277.3 billion in 2022, and they received a total of HUF 105.9 billion in grants to finance their activities and implement their professional programmes.

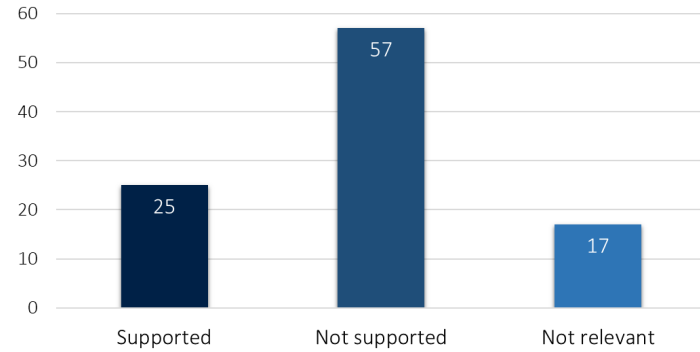
During the audit, the SAO assessed whether the NGOs operating in the form of foundations and associations and carrying out activities affecting a broad section of society, and therefore being of public interest and capable of having an influence on public life, had properly established regulatory environments and management controls in place.

The audit found that the accounting records of 91 NGOs were set up in compliance with the legal requirements, while seven NGOs were not in compliance. 72 NGOs deviated from the provisions of the Accounting Act in the accounting of advances, as they did not or only partially recorded these as liabilities in the audit period. As a result, their 2022 accounts did not present a true and fair view of their assets or their financial position. Of the 12 NGOs that received subsidies from the sponsor as grants and not as grant advances, 11 NGOs accounted for the income in accordance with the legal requirements. One non-governmental organisation did not recognise the subsidy received as income, in contravention of the legal requirement, and immediately reported it as deferred income in its accounting system under accrued expenses and deferred income, thus violating the no-netting principle under the Accounting Act.

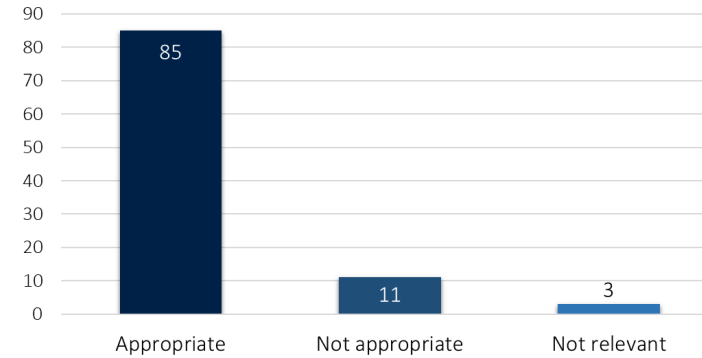
Four of the NGOs that had properly established their accounting records did not separate the public finance grants from other revenues from their core activities in their record-keeping system, in contravention of the Act on Association Rights. A further 19 NGOs did not indicate whether they received the public finance grants from the central budget or from earmarked funds, in contravention of the Act on Association Rights. 66 NGOs had separate accounting records for grants and thus complied with the legal requirements. Two NGOs, which had recorded the grant received as an advance in liabilities in their accounts in accordance with the legal requirements, had not recognised these as revenue since they had not spent any of the grants (Chart 26).

Chart 26: Regularity of the accounting records of the audited associations and foundations concerning public finance grants received (number)

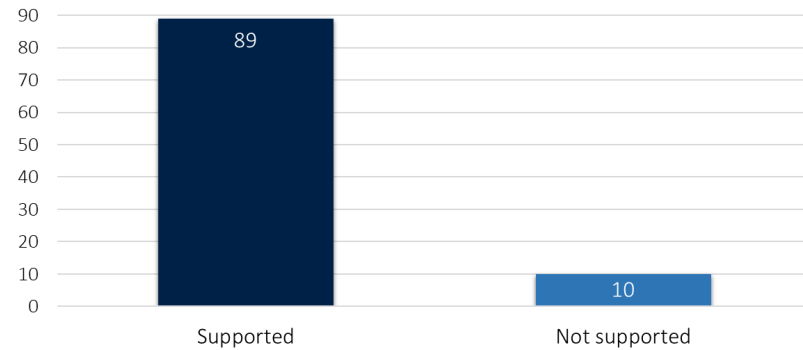
- Are the figures presented in the annual report and the notes to the annual report on public benefits supported by accounting records?



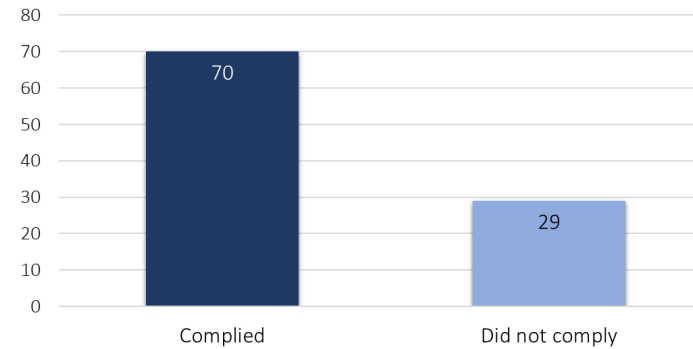
- Were the accounting records of aid spending appropriate?



- Did the accounting records support the proper accounting of the grant?



- Were the accounting records of grants received compliant with the legal regulations?



STATE ASSETS MANAGEMENT

AUDIT OF ACTIVITIES RELATED TO THE EXERCISE OF OWNERSHIP RIGHTS OVER STATE ASSETS

A total of 53 organisations exercised ownership rights over state assets in 2021. The audit covered four of the organisations involved in the exercise of ownership rights by the Hungarian State, namely the Hungarian National Asset Management Inc. (HNAM Inc.), the Ministry of Human Capacities (MoHC), National Waterworks Ltd. (hereinafter: NW Ltd.) and the National Land Centre (NLC). The audit covered their measures related to the exercise of ownership rights over state assets, their internal regulatory and disclosure controls supporting the proper performance of their exercise of ownership rights, and their 2021 reports on state assets.

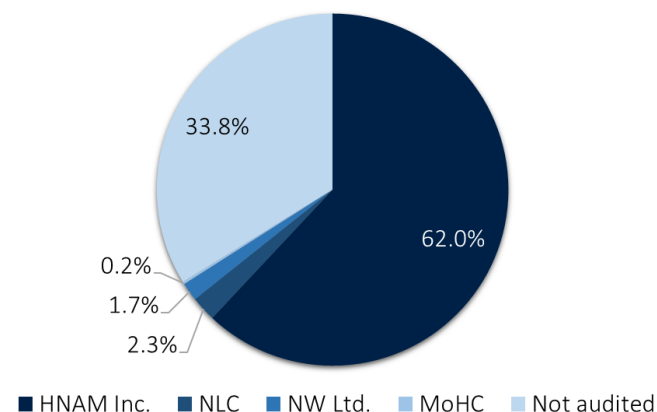
Chart 27 shows the ratio of fixed assets within the state assets entrusted to the audited entities exercising ownership rights versus the total stock of fixed assets in state assets.

The aim of the audit was to assess whether the controls put in place by the organisations exercising ownership rights over state assets ensured the proper exercise of ownership rights and whether the legal requirements were complied with in the performance of their duties.

The SAO's audit found that the controls established by the organisations exercising ownership rights over the audited state assets ensured the regular exercise of ownership rights, and that the legal requirements were complied with in the performance of their duties.

In compliance with their obligations under the Accounting Act and Government Decree 4/2013 (I.11.) on accounting for public finances (hereinafter: Public Finances Accounting Decree), the organisations exercising ownership rights prepared accounting policies and therein

Chart 27: Ratio of fixed assets within the state assets entrusted to the audited entities exercising ownership rights versus the total stock of fixed assets in state assets (%)



Source: based on data from the 2021 budget implementation reports for entrusted assets—SAO own edit

inventory and stocktaking rules for assets and liabilities, valuation rules for assets and liabilities, and a system of accounts. With the exception of one audited organisation, the regulations complied with the legal requirements in force as regards the exercise of ownership rights.

The audit showed that the audited entities exercising ownership rights had in place asset registration regulations as well as regulations on the procedure for responding to requests for access to data of public interest and for disclosure. With the exception of one entity exercising ownership rights, the entities exercising ownership rights complied with the rules in terms of their integrated risk management policies and the operation of the integrated risk management system (Chart 28).

The audit showed that all the audited entities exercising ownership rights carried out their ownership control duties in accordance with the rules, and ensured that the audits related to the exercise of ownership rights were carried out in accordance with the legal requirements.

Chart 28: The internal regulations of entities exercising ownership rights in 2021

REGULATION TITLE	HNAM Inc.	NW Ltd.	NLC	MoHC
Organisational and Operational Rules (OOR)	✓	✓	✓	✓
Accounting policy	✓	✗	✓	✓
System of accounts	✓	✗	✓	✓
Documentation procedures	✓	✗	✓	✓
Inventory and stocktaking policy	✓	✗	✓	✓
Valuation policy	✓	✗	✓	✓
Asset registration policy	✓	✓	✓	-
Procedure for responding to requests for data of public interest	✓	✓	✓	✓
Integrated risk management policy	✓	✗	✓	✓
Disclosure policy	✓	✓	✓	✓

✓: Complied ✗: Did not comply -: was not required to draw up a property register

Source: based on documents sent by audited organisations - SAO own edit

The audit found that the organisations exercising the State’s ownership rights kept regular records of the state assets.

The audit showed that the audited organisations exercising ownership rights complied with the legal regulations when fulfilling their year-end reporting and data supply obligations on the state assets entrusted to them. The data on the state assets as of 31 December 2021 were sent to HNAM Inc. by the deadline set out in the legal regulations.

The Minister for Economic Development has prepared the 2021 report on the operation of organisations exercising ownership rights on behalf of the State, the changes in state assets and the management of state assets.

During the audit, the SAO made three recommendations to the CEO of NW Ltd. and one recommendation each to the President of the NLC and the CEO of HNAM Inc. The managers of the audited organisations have prepared their action plans in response to the recommendations; the plans were accepted by the SAO.

TARGETED AUDIT OF THE CUSTODY OF CERTAIN STATE-OWNED ASSETS STORED AT EXTERNAL LOCATIONS OVER WHICH HNAM INC. EXERCISES OWNERSHIP RIGHTS AND DIRECT MANAGEMENT, AND ITS FULFILMENT OF THE DATA REPORTING OBLIGATIONS RELATING TO THESE ASSETS

Items owned by the state constitute state assets. It exercises ownership rights and obligations over state assets through organisations exercising ownership rights.

Unless otherwise provided for by law or ministerial decree, HNAM Inc. exercises all the ownership rights and obligations held by the state over the state assets entrusted to it as entity exercising ownership rights. HNAM Inc. keeps records of the state assets over which it exercises ownership rights, noting their values and changes in value, and exploits, directly or through civil law contracts, the state assets subject to its ownership rights.

The SAO's audit covered the registration and safekeeping of certain state-owned assets that are stored at external locations and over which HNAM Inc. exercises ownership rights and direct management; the provision of data and declarations to HNAM Inc. on the assets taken to such locations, and the measures taken in the event of discrepancies in the data on record and/or missing assets.

The audit covered the period from 1 January 2021 to 30 June 2023 and concerned four organisations. The SAO audited the fulfilment of obligations related to four state-owned assets selected on a risk basis, auditing the entities shown in the records of HNAM Inc. as the custodians/users of the assets. The audit covered the fulfilment of material obligations related to an oil painting at National Heritage Protection and Development Nonprofit Ltd. (hereinafter: NÖF Nonprofit Ltd.), an IT device at National Toll Payment Service Plc., a car at PRIV-DAT Ltd. and a machinery at the Hungarian Equestrian Federation.

The SAO's audit revealed that the organisations holding the assets audited changed on several occasions, but that the preservation of the assets was ensured throughout the audit period. All of the assets audited were found in the possession of the user at the time of the audit. However, the records of HNAM Inc. contained incorrect data on the custodians of three assets. HNAM Inc. indicated in the process of the audit, specifically in the comment period following the submission of the draft report of the SAO, that it had taken action to update its records.

The audit found that NÖF Nonprofit Ltd., National Toll Payment Service Plc. and PRIV-DAT Ltd. fulfilled their obligations to supply data/declarations on assets in accordance with the legal requirements. The Hungarian Equestrian Federation ensured the preservation of the assets handed over for its use; however, it did not fulfil its obligation to supply the data required by HNAM Inc. in relation to the inventory supporting the 2021 budget implementation report, and did so only partially in relation to the 2022 budget implementation report.

During the audit, the SAO made a recommendation to the President of the Hungarian Equestrian Federation, asking them to take action to ensure that the control activities were properly implemented. The President prepared an action plan in response to the recommendations, and the plan was accepted by the SAO.

TARGETED AUDIT OF COST-CUTTING MEASURES IN STATE-OWNED BUSINESS ORGANISATIONS IN 2022

Due to the significant increase in the price of energy carriers, cost-cutting measures during the audit period were one of the most important financial management decisions taken by economic operators.

The SAO audited the cost-cutting decisions taken by six state-owned business organisations in 2022 due to the significant increase in the price of energy carriers, and assessed the impact of these decisions.

The SAO found that five of the state-owned business organisations audited had taken energy-saving decisions and measures to reduce energy consumption for all the types of energy they used, which resulted in a reduction in the use of energy carriers, except for electricity in one business organisation. One of the audited state-owned business organisations took energy-saving decisions and measures that did not affect its own energy use directly, taking into account its capabilities and financial management characteristics.

The SAO found that the decisions and measures taken by the audited state-owned business organisations to save on their use of energy carriers contributed to varying degrees to reducing the use of energy carriers.

Although the energy saving measures taken by the audited state-owned business organisations covered all energy carriers, the audit found that in some cases the consideration of savings options was not exhaustive and the measures taken were not always monitored.

During the audit, the SAO made a recommendation to the CEO of KTI Nonprofit Ltd. to revise the provisions of the company's internal regulations on the private use of vehicles to restrict private use. An action plan on the recommendations was prepared by the executive and accepted by the SAO.

TARGETED AUDIT OF THE CONTROLLING SYSTEMS OF STATE-OWNED BUSINESS ORGANISATIONS

As a management decision support system, controlling systems play a key role in business organisations, as they coordinate planning, control and information supply in a single system of governance and support decision-making by continuously measuring revenue, cost and profit data and generating management reports. With a well-functioning controlling system, the managers of the business organisation can intervene in time to correct deviations from the plan.

The audit aimed to assess whether the controlling systems of state-owned business organisations supported management decision-making. The audit covered two state-owned business organisations and concerned the year 2020.

The audit concluded that the operation of the controlling systems ensured the monitoring of the activities and the achievement of the objectives of the audited organisations and supported their decisions. Controlling duties were laid down in internal regulations, including the classification of controlling tasks at the organisational level, the rules for strategic planning and the rules for the preparation of the business plan.

The audit identified a number of good practices in the operation of the controlling system, which were compliant with the requirements of the Decree on the Internal Control of Companies, such as the regulation of the tasks of the controlling area, the establishment of separate organisational units for different controlling tasks, the stipulation of tasks in internal regulations, the regulation of the system of authorising commitments, the preparation of planning/scheduling tables, the use of calculation templates supporting the preparation of calculations according to uniform criteria in the calculation of costs, and the monitoring of the fulfilment of strategic, operational and business plans.

TARGETED AUDIT OF THE CONTROL ACTIVITIES BUILT INTO THE PROCESS OF ADOPTING THE 2022 ACCOUNTS OF STATE-OWNED BUSINESS ORGANISATIONS

The objective of the annual accounts is to give a true and fair view of the assets, financial and income position of the business organisation. The report provides information not only to external market players, management and partners, but also to the entities exercising ownership rights and to the wider public. Consequently, the role of controls over the report on the annual operation of the company, its assets, finances and income is paramount.

During the process of adopting the annual accounts, business organisations need to establish and maintain controls to perform their statutory tasks in order to ensure the conditions for proper documentation and timeliness.

The objective of the audit was to assess whether the six state-owned business organisations audited had established and operated controls over the adoption of the 2022 annual accounts and whether the controls in place contributed to the adoption of the annual accounts as required.

During the audit, the SAO found that the audited state-owned business organisations had published and filed their 2022 accounts by 31 May 2023. They also established and operated controls to support the approval of the accounts. These controls were suitable to support the decision-making of the supreme body on the 2022 accounts and enabled compliance with the requirements in the course of the approval process of the 2022 accounts (Chart 29).

Chart 29: Main points in the process of adopting the 2022 accounts

Audited company	The process of adopting the accounts					
	The balance sheet preparation date was specified in the accounting policy	An independent auditor's report on the accounts was available	The written report of the Supervisory Board on the accounts was available	The decision of the entity exercising ownership rights on accepting the accounts was available	The accounts were published and deposited via the Online Reporting and Form Filling system	The accounts were published on the company's website
Agrármarketing Nonprofit Kft.	✓	✓	✓	✓	✓	✓
Aktív- és Ökoturisztikai Nonprofit Kft.	✓	✓	✓	✓	✓	✓
Concerto Akadémia Nonprofit Kft.	✓	✓	-	✓	✓	✗
Egy a Természettel Nonprofit Kft.	✓	✓	✓	✓	✓	✓
Forum Hungaricum Nonprofit Kft.	✓	✓	✓	✓	✓	✗
Széchenyi Programiroda Nonprofit Kft.	✓	✓	✓	✓	✓	✓

✓: Complied ✗: Did not comply -: was not available

The audit identified weaknesses in the publication of the accounts on own websites of two of the companies and in the consistency between the internal audit function's responsibility for the accounts and its practices at one company.

In order to remedy these deficiencies, the SAO made a recommendation each to the managers of the business organisations to ensure that adequate controls would be put in place.

The audit revealed some cases when controls were not implemented in practice and therefore failed to fulfil their purpose.

The SAO highlighted as a good practice that several of the audited business organisations had controls in place to audit their accounts even though they were not legally required to do so.

TARGETED AUDIT OF COMPLIANCE WITH ELECTRONIC DISCLOSURE OBLIGATIONS BY ENTITIES EXERCISING OWNERSHIP RIGHTS OVER STATE ASSETS AND BY STATE-OWNED BUSINESS ORGANISATIONS

In the case of organisations exercising ownership rights and state-owned business organisations with a public-service mission, the electronic disclosure of data of public interest is essential for transparency in the functioning of public life. This includes the organisational and personnel data, the data on activities, operations and financial management as provided for in Act CXII of 2011 on the Right to Informational Self-Determination and Freedom of Information (hereinafter: Info Act) and, in the case of publicly owned companies, the accounts pursuant to the Accounting Act, and the disclosures on executive officers, senior employees and members of the supervisory board as required by Act CXXII of 2009 on the More Economical Operation of Publicly Owned Business Organisations (hereinafter: Act on Economical Operation). The transparency of the activities, operations and financial management of the audited organisations is ensured by the publication of the data not

relevant to the entity, as set out in Decree 18/2005 (XII. 27.) of the Ministry of Information Technology and Communications on the publication models for the publication of data in publication lists (hereinafter: Decree on Publication Models), and by the display of a link to 'Data of Public Interest' on the home page of their websites.

The SAO's audit assessed the compliance with electronic disclosure obligations of five organisations exercising ownership rights and six business organisations at which the SAO had previously identified weaknesses in their compliance with disclosure obligations. The SAO assessed whether the audit had resulted in any improvement in the compliance of the organisations with their disclosure obligations in 2022, the audited year.

As a result of the audit, the audited organisations supplied some or all the missing documents/data/information on their websites.

The audit found that three of the audited organisations exercising ownership rights had fulfilled their disclosure obligations under the Info Act, but two of them did not publish their reports on the assets entrusted to them under the financial management data on their websites, in contravention of the legal requirements.

The audit showed that the audited business organisations fulfilled their disclosure obligations under the Info Act, the Accounting Act and the Act on Economical Operation. One business organisation complied with its disclosure obligation under the Info Act and the Decree on Publication Models after the SAO had sent out its draft report, i.e. during the comment period, thus the findings of the report were already useful during the audit.

In order to eliminate the deficiencies, the SAO formulated a recommendation each for the Director General of the Hungarian National Museum and the CEO of Hungarian Tourism Agency Ltd, in which they

were called on to take action to publish on the website the annual budget implementation report on the assets entrusted to them. The Director-General and the CEO prepared action plans on the recommendations, which were accepted by the SAO.

TARGETED AUDIT OF THE MANAGEMENT OF THE TRADE RECEIVABLES OF BUSINESS ORGANISATIONS IN MAJORITY STATE OWNERSHIP

State-owned business organisations typically have a public service mission. These business organisations cover the costs of performing their public services mostly from revenues of their own activities, so their measures and decisions regarding the collection of these revenues are of particular importance for the proper performance of public services.

Auditing the legal requirement of responsible financial management, the SAO assessed whether the business organisations had taken reasonable measures to collect their receivables, taking into account their resources, circumstances and the specificities of their receivables.

The audit selected a sample of items to verify the adequacy of the accounts receivable records, the management of the receivables portfolio and the auditing of the accounting treatment of uncollectible accounts receivable in the period 1 January 2022 to 12 July 2023 at five state-owned business organisations.

The audit found that two of the audited business organisations recorded the selected trade receivables in accordance with the legal requirements. The trade receivables register of one business organisation was partially correct because it included a receivable that had not been confirmed by the buyer, contrary to the legal requirement. The records of two other audited business organisations also contained receivables that did not comply with the legal requirements.

The audit found that one business organisation took action to recover the audited trade receivables in accordance with the principles of responsible

financial management, but four business organisations did not take all the reasonable measures to recover their receivables. The business organisations audited did not have internal regulations on the recovery of overdue trade receivables.

The audit showed that the audited business organisations regulated the accounting of bad debts in their internal regulations in accordance with the provisions of the Accounting Act.

The audit found that one business organisation complied with the Accounting Act in its accounting of irrecoverable debts. Another business organisation did not comply with the legal requirements on receivables from customers in its accounting of bad debts. Three business organisations did not recognise any bad debts in 2022 (Chart 30).

Chart 30: The regularity of the recording of receivables and of bad debts, and the adequacy of the measures taken to collect trade receivables

In audited samples	Business organisations				
	AK Nyomda Kft.	Hollóházi Hungaricum Nonprofit Kft.	Kincsem Nemzeti Kft.	KKM Subsidium Kft.	OMSZI Nonprofit Kft.
Trade receivables records	✓	✗	P	✓	✗
Adequacy of the measures taken to recover receivables from customers	✓	✗	✗	✗	✗
Accounting treatment of uncollectible trade	NR	NR	P	NR	✓

✓: Complied ✗: Did not comply P: Partially complied NR: Not relevant

In order to remedy the deficiencies, the SAO issued recommendations to the managers of the business organisations, in two cases requesting action to ensure compliance with the substantive requirements of the system of accounts, and in seven cases drawing attention to the proper functioning of control activities to prevent the non-recovery of overdue receivables and to ensure the compliance of the accounts receivable records with the provisions of the Accounting Act. With one exception, the audited organisations prepared action plans in response to the recommendations; the plans were accepted by the SAO. AK Nyomda Kft. was wound up without legal succession as of 24 November 2023, and the recommendation made to it therefore became obsolete.

The audit identified as good practice that one of the business organisations set up a dedicated IT system to manage the receivables from a specific subset of customers. This system provided both the business organisation and its customers with monitoring information of the trade receivables. Customers were able to access the system online, and it allowed the reconciliation of the data on receivables and payables outstanding against the business organisation and the offsetting of receivables, thus contributing to the efficient management of receivables.

CONCLUSIONS FROM ANALYSIS

ANALYSES SUPPORTING THE WORK OF THE FISCAL COUNCIL

Pursuant to Article 23(2) of the Act on Economic Stability, the SAO assists the President of the SAO in discharging his duties as member of the Fiscal Council (hereinafter: FC) by supplying to the FC analyses related to the issues on its agenda. In 2023, the SAO produced the following analyses under Article 5(13) of the Act on SAO to support the work of the FC:

- opinion on the amendment of the Act on the Central Budget of Hungary for 2023, and
- resolution on the compliance of the amending bill with the public debt rule,
- opinion on the draft Bill on the Central Budget of Hungary for 2024,
- resolution on the compliance of the Bill on the Central Budget of Hungary for 2024, in its version before the final vote, with the public debt rule,
- assessment of budgetary processes in the second half of 2022,
- opinion on budgetary processes in the first half of 2023,
- opinion on the need for the MNB to replenish its capital, and
- outlook on macroeconomic and budgetary developments for 2024–2026.

The majority of the analyses were not published by the SAO but were used in the FC in its work.

In addition, the SAO gave its opinion on materials prepared by the Secretariat of the FC.

In a public analysis of the **budgetary developments in the first half of 2023, also including an outlook for the months of July and August**, prepared for the FC, the SAO concluded that the downturn in the domestic economy continued in the first half of 2023, with the Hungarian economy entering a longer technical recession. The average rate of increase in consumer prices in the first half of 2023 was 23.6% year on year. The rate of inflation was 16.4% in August, and consumption – and the resulting revenues – are expected to remain below planned levels due to high prices. In the first half of 2023, the investment in the national economy fell by 9.6% in comparison to the same period of the previous year. Internal demand, which determines VAT revenues, declined significantly in the first half of the year, leading to a slowdown in the growth of consumption taxes, which account for the largest share of direct revenues, and lower-than-expected revenues in the first half of the year.

On the positive side, the external trade in goods balance increased in the first half of 2023, reaching HUF 581.3 billion in June. Employment was at a high level in the first half of the year, with 63.7 thousand more people aged 15–74 in employment in June 2023 than in December 2022, although there was also a moderate increase in unemployment numbers. Central sub-sector revenue at the end of June was around 49.0% of the annual plan, but there were significant shortfalls in VAT, excise duties and EU programme revenues.

Some budgetary expenditure items were implemented in higher amounts and at higher rates than in previous years. The higher-than-targeted

interest expenditures were driven mainly by higher interest rates than in the previous year and rising government debt, with government bond yields remaining stuck, for most of the first half of the year, at the high levels characteristic since September 2022. EU revenues were low in the first half of 2023, in view of which the Government cut back on advance payments on EU revenues, so EU expenditure was below target at 36.4% of the statutory allocation. During the year, the Government introduced several measures to cut expenditures and raise revenues. From July, tax on savings other than government bonds was increased, and from August, food purchases with SZÉP cards were reintroduced to boost consumption. From July 2023, the Government introduced a new tax liability for companies that have received a free allocation of allowances and emitted more than 10,000 tonnes of CO₂.

The central government debt increased by 5.2% to HUF 47,927.5 billion between the end of 2022 and the end of the first half of 2023. In the first half of 2023, gross debt issuance amounted to HUF 6,644.0 billion, representing around 64.0% of the planned annual gross issuance. In September 2023, the Government Debt Management Agency published a new financing plan, in which it increased the gross issuance by HUF 422.0 billion, in line with the new deficit target. An improvement in economic performance over the rest of the year may create the conditions for a reduction in the public debt ratio.

The publicly available analysis of the macroeconomic context of the 2022 budget processes, prepared alongside the audit of the final accounts, pointed out that the conditions for the implementation of the Act on the Central Budget of Hungary for 2022 were significantly worsened by Russia's invasion of Ukraine on 24 February 2022 and the subsequent sanctions. Despite the adverse changes, the Hungarian economy achieved an annual average increase in performance. This, together with price increases, caused the (nominal) GDP at current prices to rise faster than

public debt, which itself grew more than planned, and thus the public debt rule was met. The higher-than-planned increase in public debt was related mainly to the fact that the cash deficit of the central sub-sector of public finances in 2022 was almost 50% higher than planned. In addition to external factors, the high deficit was also due to internal processes, in particular certain expenditures at the beginning of the year, which had not been planned when the budget bill was passed.

During the planning of the budget, growth in domestic consumption and investment was assumed. Consumption grew more than forecast, leading to a significant increase in revenues for the central budget, especially in VAT receipts. Starting mid-year, the surge in energy prices led to a significant increase in the budgetary expenditures needed to maintain the utility cost reduction for households, and it became necessary to provide fiscal compensation for the increase in energy prices in public services and in some areas of the private sector as well. The war situation also justified accelerating the increase in defence spending. To finance these, new extra-profit taxes were imposed and the rates of existing taxes were increased. In the middle of the year, the Government took measures to improve the fiscal balance, restraining expenditure increases in budgetary entities and in chapter-managed appropriations, and above all in investment. Consequently, investment was less able to contribute to economic growth than planned.

The SAO published further analyses assessing macroeconomic and budgetary developments to inform the National Assembly and the public.

ACCRUAL-BASED ACCOUNTING ANALYSIS

In order to promote a meaningful rate of adoption of accrual-based accounting in the area of public finances, the SAO prepared a series of three analyses, the first two of which were published in February and November 2023 and the third in February 2024.

The aim of these analyses on accrual-based accounting for budgetary institutions was to develop an evaluation methodology that would enable the managers of budgetary entities, their governing bodies and auditors to assess realistically and objectively the performance of a budgetary entity's asset management and identify the risks involved by examining the accrual-based supporting documents to their financial reports.

The analysis toolkit developed by the SAO helps to identify the asset management risks of a central budgetary entity on the basis of accrual-based documents supporting the financial statements. Its analysis also revealed that more detailed analysis would be needed to assess the effectiveness of certain aspects of asset management and that the data in the financial statements are not sufficient for this purpose. The analysis provides guidance to heads of budgetary entities, governing bodies and external audit bodies on how to carry out the above. The analysis draws attention to the possibility of using several indicators in combination. In terms of combining indicators, the analysis revealed the opportunity for novel results by combining the asset replacement index and the degree of utility indicator. The results of the analysis can be used primarily through the application of the indicator system developed and a use of the analysis methodology. An additional result is the identification and illustration of the specificities of the financial management of central government bodies due to which using indicators developed to assess financial management in the private sector would lead to misleading results if applied to budgetary entities without adjustment. Both the results of this analysis and international experience show that the accrual-based approach provides useful information that can be used by institutions or their governing bodies for managerial decision-making, including asset management.

The analysis of the accrual-based statements of budgetary institutions found that there is a marked positive shift compared to the results of the

analysis on a similar topic in 2021, although the utilisation of accrual-based data by sector shows a varied picture. Some of the institutions surveyed also used accrual-based revenue and expenditure data analysis comparing base, budget and actual figures, while several institutions also carried out profitability calculations. The use of accrual-based data was most common in sectors where this was tied to substantive motivation. In hospitals, where the performance principle is reflected in their financing, the SAO saw extensive use of accrual-based accounting. Many of these are based on the requirements set by the mid-level governance entity, but also allow for institutional specificities. In contrast, institutions performing mostly administrative, official agency type roles made less use of accrual-based data, although there were examples of accrual-based data being used in the context of management controlling in addition to budgetary management. In order to ensure that the use of accrual-based accounting is not just an administrative obligation, a change of approach is needed, which may require a sharing of experience demonstrating the utility of the additional information provided by accrual-based accounting and the benefits associated with it. However, further significant and widespread progress in the use of the accrual-based approach in the public sector is likely only if the financial planning and the evaluation of the management of appropriations in budgetary entities is linked to accrual-based accounting data too, or if funding is provided in such a way that it encourages performance measurement and successful financial management on the long-term.

SUSTAINABILITY ANALYSIS

The focus of the SAO's analysis of sustainable development in 2023 was to assess the achievement of the targets on wastewater and water pollution. Agenda 2030, a document adopted by the United Nations (UN) member states in 2015, includes SDG 6 ('Clean water and sanitation') aimed at ensuring access to water and sanitation and sustainable water management. The analysis entitled **Wastewater and Water Pollution:**

Social and Environmental Sustainability in the Light of UN SDG 6 presented how Hungary performs against the indicators for the achievement of SDG 6.3, the proportion of safely treated domestic and industrial wastewater and the proportion of water bodies with good environmental water quality, and how the previously developed, substantively identical domestic strategic goals were measured and achieved.

The analysis showed that, while Hungary has performed well in the safe treatment of wastewater, the proportion of good quality water bodies in Hungary grew modestly, from 57.6% to only 59.3%. These results highlight that further efforts are needed to meet the water quality objectives of the EU Water Framework Directive and the Kvassay Jenő Plan. Over the same period, the proportion of households connected to the public sewerage network increased from 81.4% to 83.0%, and the proportion of wastewater treated to the highest treatment level increased from 90.9% to 91.6%, which means that the targets relating to quality improvements in wastewater treatment were essentially met. The quality of surface water in Hungary is determined mainly by the fact that 95.0% of the country's water resources come from abroad, with low water yields in recent years also hindering the achievement of water quality objectives. The analysis also highlights the ecological paradox of wastewater treatment: the more wastewater is collected in the public networks, the more the organic and nutrient load to surface waters increases due to the increase in wastewater treatment plant discharges. In the case of groundwater, however, improvements will only be seen decades after the pressure has ceased.


The analysis also revealed legislative anomalies. The amendments to Ministerial Decree 31/2004 (XII.30.) of the Ministry of Environment and Water on the monitoring and condition assessment of surface water bodies, and to Ministerial Decree 10/2010 (VIII. 18.) of the Ministry of Rural Development on the limit values of surface water pollution and the rules of their application, based on the revised River Basin Management

Plan (hereinafter: RBMP), have not been prepared. Therefore the water quality standard set out in the RBMP differs from the requirements in the relevant legislation, so there may be questions about what thresholds a water body should meet. Risks were identified concerning wastewater treatment plans in that water utility operators dealing with wastewater treatment may face funding and human resource problems, which increases the likelihood of technical incidents and accidents. In addition, there may be a difference between the reported data on the quality of wastewater discharged by wastewater treatment plants and the actual environmental impact of treatment plants. This is evidenced by the fact that the wastewater sludge volume data led the General Directorate of Water Management to conclude that a higher rate of wastewater sludge discharge to rivers may be occurring than official data would suggest. There is also a risk in relation to compliance with emission limit values of wastewater treatment plants, as the legal regulations provide that the quality of treated wastewater should be monitored mainly on the basis of the principle of self-monitoring; the legal regulations also provide that, as a main rule, the Disaster Management Authority, which is responsible for official monitoring, should announce the date of the monitoring in advance.

OTHER ANALYSES

In February 2024, the SAO published its analysis of the National Aid Monitoring System (hereinafter: NAMS), which aimed to identify the legal environment in which the NAMS operates, the organisations and mechanisms responsible for ensuring data quality, and the circumstances and risks related to the reliability of the data stored. The analysis assessed whether the NAMS ensured transparency and an accurate and continuous monitoring of all aid. The results of the analysis may contribute to improving the data quality of the NAMS and the conduct of audits related to the use of public funds and support informed, risk-based selection for audits.

THE FINANCIAL MANAGEMENT AND OPERATION OF THE SAO IN THE YEAR 2023



Financial management figures
Human resource management

FINANCIAL MANAGEMENT FIGURES

The SAO drew up its budget implementation report for the financial year 2023 as at 31 December 2023, which was certified by an independent auditor in accordance with the statutory requirements. Based on the opinion of the independent auditor, the SAO's budget implementation report for 2023 gives a true and fair view of the implementation of its budget for that year, its asset and financial position, and the results of its financial management.

Act XXV of 2022 on the Central Budget of Hungary for 2023 (hereinafter: Central Budget Act 2) set the SAO's expenditure appropriation at HUF

Table 4: Changes in appropriations (in HUF)

Priority appropriations	Original appropriations	Adjusted appropriations	Increase in appropriations	Decrease in appropriations	Change in appropriations
Staff remuneration	10 103 200 000	10 360 832 510	1 499 007 000	- 1 241 374 490	257 632 510
Employer contributions and social contribution tax	1 470 000 000	1 495 040 709	215 422 560	-190 381 851	25 040 709
Material expenditures	1 137 800 000	1 587 848 935	450 048 935	0	450 048 935
Other operating expenditures	2 000 000	2 991 907	991 907	0	991 907
Capital investments	537 200 000	1 495 972 416	958 772 416	0	958 772 416
Renovations	36 800 000	60 992 349	24 192 349	0	24 192 349
Budgetary expenditures	13 287 000 000	15 003 678 826	3 148 435 167	-1 431 756 341	1 716 678 826
Budget revenues	20 000 000	14 996 090	0	-5 003 910	-5 003 910
Financing revenues	13 267 000 000	14 988 682 736	1 721 682 736	0	1 721 682 736
Total revenues	13 287 000 000	15 003 678 826	1 721 682 736	-5 003 910	1 716 678 826

13,287.0 million, its revenue target at HUF 20.0 million and its state funding at HUF 13,267.0 million. The planning and implementation of the 2023 annual budget complied with the relevant rules. In line with Article 36(1) of the Act on Public Finances, the SAO made commitments to the amount of uncommitted appropriations. The annual budget implementation report complied with the requirements of the Accounting Act and the Public Finances Accounting Decree.

CHANGES IN APPROPRIATIONS

During the year, the elementary budget sum total was revised to HUF 15,003.7 million as a result of the changes in appropriations; the quantified changes are presented in Table 4.

In 2023, changes in appropriations were made at the government, chapter and institutional levels, as follows:

- Pursuant to Article 43(1) of the Public Finances Implementation Decree, an amendment was made to priority appropriations by transferring appropriations between headings.
- The Government modified the appropriations figure by HUF 1,518.9 million due to a 17.5% increase in the amount indexed to the annual increase in average gross earnings. To provide the funds for the increase stipulated in the Act on SAO, HUF 1,326.0 million was reallocated from the Budget Act provisions heading for staff remuneration and HUF 192.9 million for the social contribution tax.
- A total of HUF 195.4 million gross was reallocated for severance pay as extra expenditure related to the termination of contracts following the amendment of the Act on SAO.
- The absorption of the 2022 budgetary residual balance was made through modifications of appropriations in institutional competence amounting to HUF 7.3 million, of which HUF 6.5 million was committed residual balance. A total of HUF 0.7 million in uncommitted residual balance was paid into the Central Residual Settlement Fund in accordance with the legal requirements.
- The governing body modified appropriations by the sum of HUF 5.2 million due to the fact that certain revenues were different from the budgeted amount.
- The appropriations for cash received for capital formation increased by HUF 0.2 million, due to the recovery of employer loans.

ACTUAL BUDGETARY EXPENDITURES

Actual spending amounted to HUF 14,845.9 million, equal to 98.9% of the budgetary expenditure appropriations. Actual payments versus the amended budgetary expenditure appropriations and free residual balance amounts are shown in Table 5.

Table 5: Actual versus planned budgetary expenditures; residual balance (in HUF)

Priority appropriations	Adjusted appropriations	Actual figures	Residual balance
Staff remuneration	10 360 832 510	10 268 722 651	92 109 859
Employer contributions and social contribution tax	1 495 040 709	1 430 245 589	64 795 120
Material expenditures	1 587 848 935	1 587 848 935	0
Other operating expenditures	2 991 907	2 991 907	0
Capital investments	1 495 972 416	1 495 146 655	825 761
Renovations	60 992 349	60 992 349	0
Budgetary expenditures	15 003 678 826	14 845 948 086	157 730 740

The total budgetary residual balance is HUF 157.7 million. In accordance with Article 150(1) of the Public Finances Implementation Decree, the committed residual balance in 2023 was HUF 0.8 million, the financial execution of which was carried over into 2024. The free residual balance remaining after spending the funds available in the financial year was HUF 156.9 million, which was paid back into the Central Residual Settlement Fund in 2024.

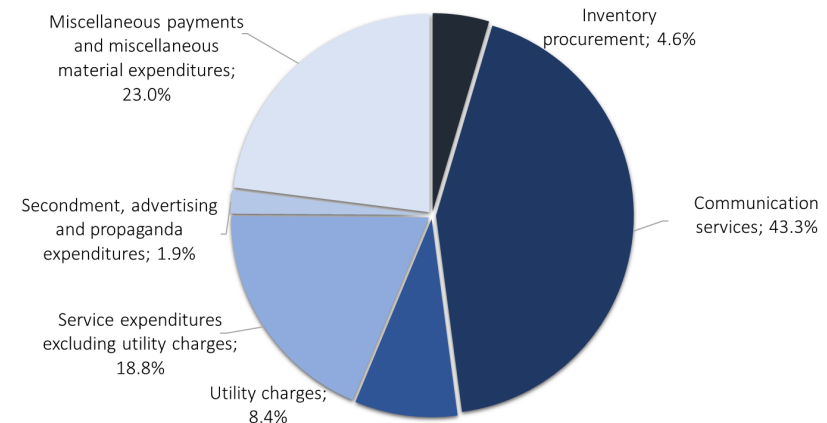
Compliance with the criteria of effectiveness, efficiency and economy was a primary consideration in order to maintain the budget balance. No significant additional revenue was expected compared to the planned annual institutional revenue of HUF 20.0 million, so the solution to maintain the financial balance was to reduce expenditures.

The initial appropriations for **staff remuneration** were increased by a (9-monthly) amount indexed to the annual increase in average gross earnings in the previous calendar year, as defined in Article 2(2a) of the Act on SAO, plus the amount of severance payments made. Of the additional subsidy of HUF 1,499.0 million under the priority appropriation heading, HUF 1,241.4 million was spent on material and capital expenditures. HUF 165.5 million (11.0%) was spent on salary increases from the subsidy to cover additional expenditures on staff remuneration. After the transfer, the residual balance of staff remuneration was HUF 92.1 million, which formed part of the free residual balance to be repaid in 2024.

The initial appropriations for **employer’s contributions and social contribution tax** were also increased by the pro rata amount provided for in Article 2(2a) of the Act on SAO and by the taxes on severance pay. Of the additional subsidy of HUF 215.4 million under the priority appropriation heading, HUF 190.4 million was spent on material and capital expenditures. After the transfer, the residual balance of contributions was HUF 64.8 million, which formed part of the free residual balance to be repaid in 2024.

The breakdown of the amount of HUF 1,587.8 million for **material expenditure** is shown in Chart 31. 4.6% of material expenditures was for the purchase of supplies, including reference books, law database and other subscriptions under professional materials, and, among other things, fuel, cleaning products and other materials under the operating materials heading.

Chart 31: Breakdown of material expenditures (%)



Under communication services, much of the spending was on short-term licence purchases (e.g. Vmware licence, Novell Microfocus, server warranty extension, Check Point licence, digital signature licence, Microsoft environment development, Web proxy support, SAS licence, etc.) and payments for system operation and support services.

Postal, cleaning, insurance and stocktaking services accounted for the largest share of service expenditure and were booked under other services. The actual payment rate for utility charges was 79.4% of the initial appropriation, of which 57.1% was for electricity, 30.4% for gas, 11.0% for district heating and 1.6% for water and sewerage. Secondment, advertising and publicity expenditures included the costs of secondment, job advertisements, selected media monitoring and analysis, and news summaries.

Miscellaneous payments and miscellaneous material expenditures included input VAT for operating items, as well as public procurement fees, public land usage fees, litigation costs and other fees.

Miscellaneous operating expenditures also included international membership fees of HUF 2.2 million, recorded under international liabilities. Under deductions and payments, the free residual balance from the previous year was repaid in the amount of HUF 0.8 million.

In contrast to an initial appropriation of HUF 537.2 million, **investments** amounted to HUF 1,495.1 million. The 278.3% spending rate compared to the initial appropriations was mainly covered by the transfer of appropriations from staff remunerations. The committed residual balance of priority appropriations was HUF 0.8 million, the financial execution of which was carried over into 2024. The SAO implemented major IT development projects in 2023 and started to develop a new software environment. A decision was taken to build a future-proof, secure IT infrastructure, the first phase of which involved purchasing licences and vendor support for several years. A standard Microsoft corporate environment and new workstations were set up and the WIFI network was renewed.

Intangible assets accounted for 51.3% of the total investment figure and included long-term software licences, such as Microsoft software products and solutions, Cisco telephony licence, SAS licence renewal, training, backup systems and other licences.

The costs of setting up dining premises was booked to the heading 'Acquisition and construction of immovable property'. Items booked to 'IT equipment purchases' included laptops, RSA tokens, HDD Eraser, WIFI network expansion, headphones, eID card readers and other IT equipment. The purchase of kitchen utensils, furniture, heating panels, shredders and cars accounted for a significant part of the purchases of other tangible assets.

Spending on renovation works in 2023 represented 165.7% of the initial appropriations, with payments made in order to modernise and preserve the condition of the buildings. The renovation expenses included the cost

of renovating the lifts, the renovation of the bathrooms in the Apáczai Street building, the replacement of the ceiling and the modernisation of the video surveillance system.

ACTUAL BUDGET REVENUES

The original target for budget revenues in 2023 was HUF 20.0 million, of which 75.0%, a sum of HUF 15.0 million, was realised. The evolution of budget revenue targets is shown in Table 6.

Table 6: Budget revenues (in HUF)

Heading title	Original appropriations	Adjusted appropriations	Actual figures
VAT invoiced	100 000	698	698
Compensation paid by insurers	2 000 000	5 442 804	5 442 804
Other operating revenues	14 900 000	5 711 764	5 711 764
Operating revenues	17 000 000	11 155 266	11 155 266
Sales of other tangible assets	3 000 000	3 620 000	3 620 000
Capital formation revenues	3 000 000	3 620 000	3 620 000
Recovery from non-public finance sources of repayable subsidies and loans for capital formation	0	220 824	220 824
Cash received for capital formation	0	220 824	220 824
Budget revenues	20 000 000	14 996 090	14 996 090

Operating revenue was 34.4% below the budgeted amount. There were no sales of stocks or provision of services in 2023. Claim disbursements by insurers reached 272.1% of the original appropriation. In **other operating revenue**, paying agent expense reimbursements and overpayments on material expenditures in 2023 amounted to HUF 3.2 million, while HUF 2.5 million was the actual figure in repayments by employees for cafeteria, tuition and other expenses, and in car repair co-payments.

Actual capital formation revenues were HUF 0.6 million higher than planned. In 2023, two cars were sold, for a total of HUF 3.6 million. Revenue from the repayment of employer housing loans amounted to HUF 0.2 million, and was recorded under ‘**Cash received for capital formation**’.

FINANCING REVENUES

The SAO’s operating expenditures were financed on a pro rata basis and its capital expenditures on a performance basis, against a monthly spending plan drawn up in accordance with the provisions of Article 172/A(1) of the Public Finances Implementation Decree and taking into account the data in the appropriations register, known commitments, receivables and expected payments. The initial appropriation for financing expenditures for 2023 was increased by HUF 1,721.7 million (Table 7).

Table 7: Changes in initial appropriations for financing expenditures in 2023

Additional support due to increase in the gross average wages index	HUF 1,518.9 million
Additional support due to severance pay	HUF 195.4 million
Committed residual balance in 2022	HUF 6.5 million
Repayment of free 2022 residual balance	HUF 0.7 million

CHANGES IN THE 2023 BUDGETARY RESIDUAL BALANCE

Pursuant to the provisions of Article 149(1) of the Public Finances Implementation Decree, the budgetary residual balance is established when the annual budget implementation reports are drawn up in accordance with the provisions of the Public Finances Accounting Decree. Pursuant to Article 150(1) of the Public Finances Implementation Decree, the balance of capital expenditures performed in the current year but

with payment postponed to 31 December of the following financial year is reported as committed budgetary residual balance. The SAO’s total budgetary residual balance for 2023 was set at HUF 157.7 million, of which the committed residual balance amounted to HUF 0.8 million and the uncommitted residual balance of core activities was HUF 156.9 million.

ASSETS AND LIABILITIES

The accuracy of the asset information in the balance sheet is supported with inventories; the SAO fulfilled its obligation to take a reconciliation inventory, and there was no quantitative stocktaking in 2023. The reconciliation of the accounting records and the verification of the content of the general ledger records included checking the substantive probity of the books. The general ledger accounts were supported by subledger records.

The SAO’s balance sheet total as at 31 December 2023 amounted to HUF 4,563.9 million, which was 18.3%, or HUF 706.8 million, more than the balance sheet total as at 31 December 2022. The extraordinary depreciation of tangible assets was charged in accordance with the provisions of the Public Finances Accounting Decree. The statutory consistency between budgetary and financial accounts is ensured, and receivables, commitments and closing cash balances are reconciled in accordance with Annex 17 to the Public Finances Accounting Decree.

HUMAN RESOURCE MANAGEMENT

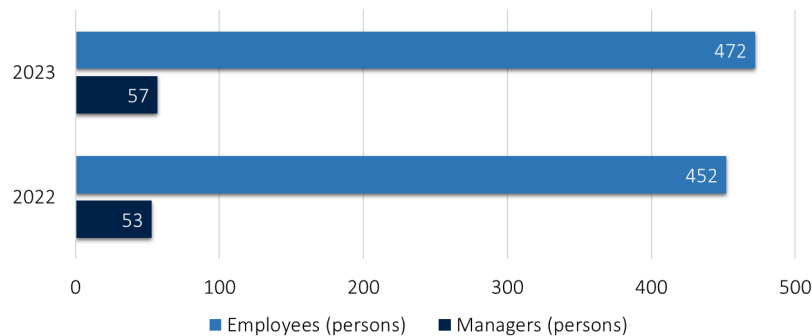
Based on the amendment to the Act on SAO that entered into force on 1 January 2023 and the new job structure and grading system set out in the SAO's Human Resources Policy, all SAO staff members were added to the new grading system, and the new public service contracts for auditors were issued with effect from 1 January 2023.

CHANGES IN STAFF HEADCOUNT

The SAO increased its staff headcount by 27 in 2023, to reach 529 by the end of the year, providing it with the resources necessary for performing its duties.

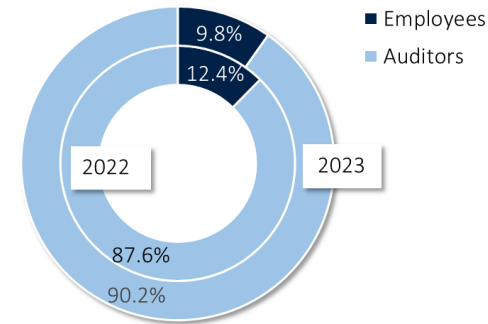
According to the organisational development guidelines, the ratio of employees in management positions to total employees did not change significantly year on year in 2023 (10.8% vs. 10.6%), their number increased by 7.5% (by 4 persons, from 53 to 57), as the job openings for audit managers were filled. The change in the number of managers and subordinates is shown in Chart 32.

Chart 32: Change in the number of managers and staff in 2022 and 2023



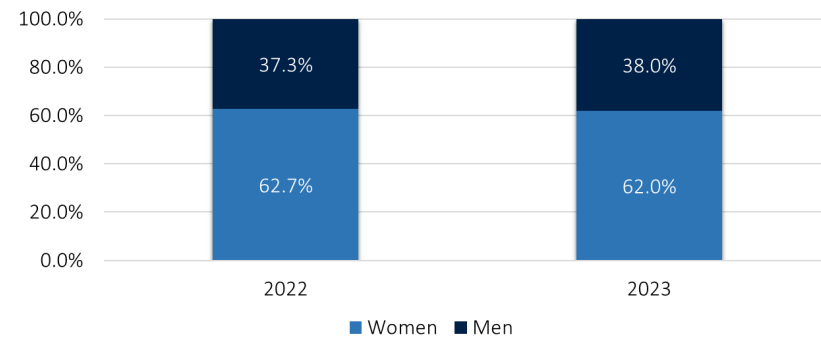
In the context of the amendment of the Act on SAO, the distribution of the number of staff by function group in 2023 has changed, with the proportion of auditors increasing from 87.6% to 90.2% and the proportion of employees decreasing from 12.4% to 9.8% compared to 2022 (Chart 33).

Chart 33: Ratio of auditors to employees in 2022 and 2023 (%)



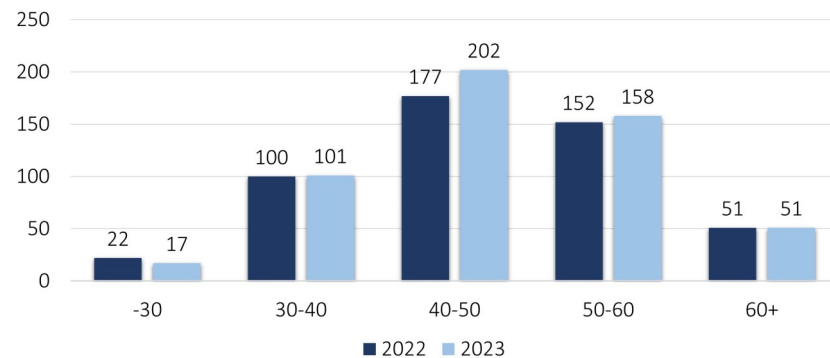
There were no substantive changes in the ratio of women to men in 2023 compared to the previous two years, with a change of 0.7% year on year (Chart 34).

Chart 34: Proportion of women and men in the workforce in the years 2022 and 2023



The age distribution of the workforce did not change significantly in 2023, with the number of people in the under-30 age group decreasing from 22 to 17, the number of people in the 30–40 age group increasing from 100 to 101, the number of people in the 40–50 age group increasing from 177 to 202, and the number of people in the 50–60 age group increasing from 152 to 158. The number of people in the over-60 age group remained unchanged at 51 (Chart 35).

Chart 35: Headcount changes by age group in 2022 and 2023

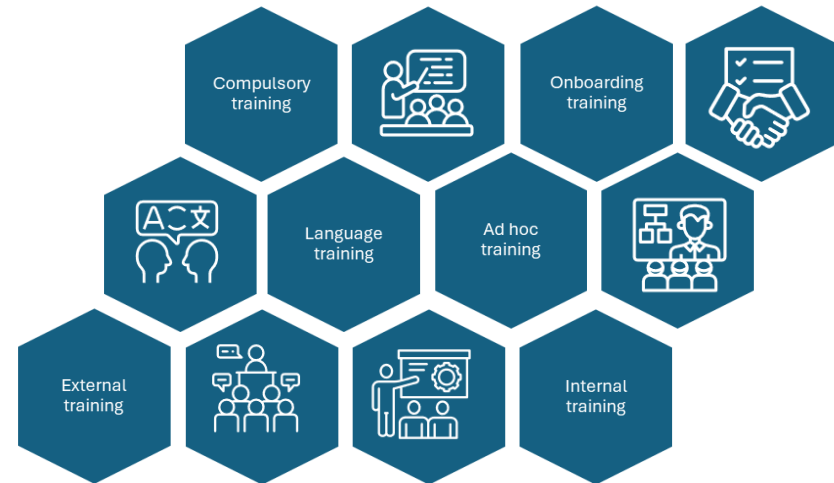


TRAINING COURSES

The SAO’s training and development programme aims to improve the knowledge and skills of its human resources and to prepare them for adaptation to a digital auditing environment in the future. The SAO distinguishes between compulsory, internal, onboarding, ad hoc, language and external training.

The main area of internal and external knowledge transfer training is finance and accounting training, which expands and updates the knowledge of the auditors involved in the audits. Colleagues are also enrolled in university courses in specialised law, public procurement and business data analysis. Skills training focused on improving language and communication skills.

Chart 36: Training system at the SAO



At the end of January 2023, four sessions of **mandatory training** in occupational safety and fire protection were provided online. The IT security and data protection officers delivered training by giving presentations on data protection and IT security. Registered accountants obtained their mandatory training credits through online further training. Those in jobs requiring compulsory further training (e.g. health and safety officer) fulfilled their training obligations with the help of external trainers.

For new hires and those returning from long-term absence, **presential induction training** was organised on three occasions for 36 participants, where they were given presentations on the SAO’s organisational structure and functioning. Case studies collected and presented by the audit directorates provided them with a comprehensive picture of the SAO’s audit and advisory activities.

Two interactive training sessions on the AdActa document management system were held for 37 participants, providing an opportunity for both new hires and experienced colleagues to learn about the operation of the system and refresh their knowledge.

Staff participated in 33 **ad hoc training** sessions, where they learned how to use auditing software programmes Source and Nexon, and acquired knowledge on subjects such as public procurement and human resources, GDPR, management techniques and compliance.

One-on-one English **language training** for senior managers, which started in the second half of 2022, continued in 2023 with four participants and a total of 180 hours of learning. In addition, group language courses started in September 2023, delivering training to 42 participants at five levels of language proficiency, in a total of 72 hours.

External training courses were focused mainly on economics, specifically finance and accounting. 150 persons joined the training course for registered accountants to obtain the required credits and improve their professional knowledge. In September 2023, 12 people started their studies as public sector registered accountants and eight people as private sector registered accountants.

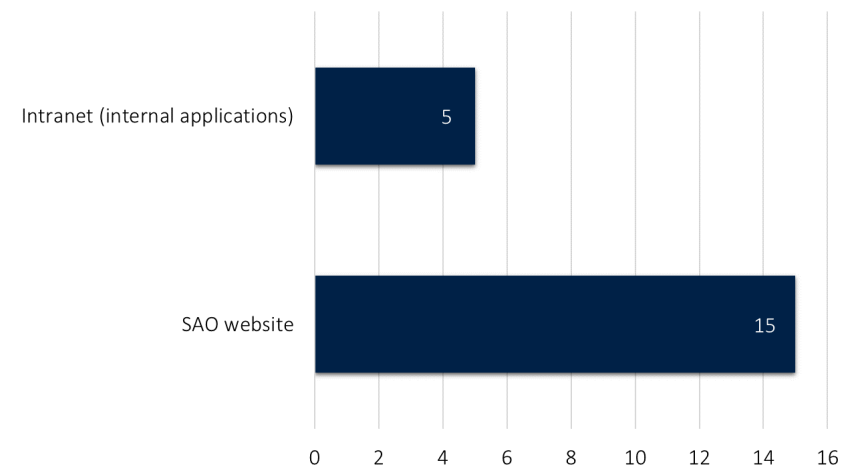
As for university courses, two graduates earned a postgraduate diploma in public procurement law and two graduates acquired a postgraduate diploma in public procurement advisory services in the 2022/2023 academic year. In the 2023/2024 academic year, three persons started their studies in Business Data Analytics at Corvinus University, and four employees enrolled in the regulated industry law programme at Pázmány Péter Catholic University.

RECRUITMENT SYSTEM

In its recruitment process, the SAO is looking for highly qualified professionals with outstanding professional experience in the fields of public funds, public finance, non-profit financial management and financial/economic auditing, with several years of audit experience.

During 2023, the SAO published its job advertisements on its intranet, LinkedIn and the Profession.hu website (Chart 37).

Chart 37: Job postings in 2023 (number)



875 people applied for the jobs. The SAO's HR organisation conducted 72 interviews; 17 of the 21 candidates proposed for hiring were given a job.

ORGANISATIONAL DEVELOPMENT

Competence development

Changes in human resources policy

Changes in professional methodology

Experience from operating the internal control system

Started in the second half of 2022, a process of renewal was already underway at the SAO, involving organisational and personnel changes, the formulation of new audit principles and methodological innovations, the further development of professional audit rules and the creation of the conditions for quality assurance in our operations.

COMPETENCE DEVELOPMENT

The SAO pays particular attention to improving the effectiveness and efficiency of its activities, one of the possible tools being competence-based organisational development. The SAO's core activities are carried out by its organisational units responsible for auditing, with five audit directorates serving as centres of professional competence since October 2022, and sectoral and analytical **professional competence departments** supporting the achievement of the strategic objectives since autumn 2023.

The SAO will further expand the areas of professional competence by adding new areas in 2024.

CHANGES IN HUMAN RESOURCES POLICY

With the amendment of the Act on SAO, from 1 January 2023, the former appointments of auditors have been replaced by the public **service contract for auditors**, which is based on a bilateral agreement between the parties. In addition, wage bill management was introduced, providing the opportunity for the employer to develop a flexible and performance-oriented human resources system.

Following the amendment of the Act on SAO, the President of the SAO, in his non-delegable powers, has laid down in the Human Resources Policy the principles and provisions for the classification of auditors, the grading categories, the job titles, the amount of the additional leave which may be granted by the employer, which shall govern the conclusion of the public service contract of the auditors and provide a framework for the

establishment of the legal relationship between the parties, and the rules for performance evaluation in a separate regulation.

The **new performance appraisal system** aims to provide a better basis for objective measurement of professional performance and detailed feedback to both employees and managers on the presence or absence of personal skills and competences, thus helping to identify directions for improvement.

The amendment of the Act on SAO, which entered into force on 1 January 2023, created a new trainee scheme to give young graduates the opportunity to learn about the activities of the SAO and join the SAO staff after the completion of their trainee programme.

The traineeship is a one-year fixed-term contract for employment, divided into three phases. At the end of the third stage, the trainee takes an exam and, if they pass it, they can be hired as auditor.

CHANGES IN PROFESSIONAL METHODOLOGY

Further enhancement of the rules of the auditing profession

The SAO carries out its audits in accordance with the criteria of legality, expediency and effectiveness. The methodological renewal started in 2022 continued in 2023. The first of the professional methodology rules to be reviewed was the **principles governing the SAO's operation**. A consolidated, professionally and linguistically revised document summarises the most important principles of the SAO's independence, transparency and accountability, ethical requirements, quality management and the usefulness of the SAO's activities, as well as the rules on the professional competence of auditors. The operating principles are publicly available on the SAO's website.

The methodological renewal process continues with the **revision of the SAO's audit principles**.

In addition, in the second half of 2023, the development of a **methodology document supporting the audit of public procurements** was launched, taking into account the relevant legislation and international standards, with the aim of providing guidance for the conduct of the SAO's audits on the legality, expediency and effectiveness of public procurement procedures, i.e. for the planning and implementation of the SAO's procurement-related audits, the definition of audit questions and criteria appropriate to the audit objectives, and the preparation and follow-up of the SAO's report. The SAO published the methodology document on its website in March 2024.

In 2023, the SAO revised its **methodological guide for the analyses underpinning the opinion on the Bill on the Central Budget of Hungary for 2024**, and published it on its website. The methodology is based on a statistical sampling of the budget appropriations to be included in the opinion and the SAO uses economic analysis methods to assess the feasibility of the revenue appropriations.

In 2023, the SAO was also actively involved internationally in the shaping of methodological rules. The SAO's experts contributed to the efforts of the working group responsible for drafting the new INTOSAI Standard on Quality Control, which will enter into force on 1 January 2025.

The SAO intends to continue to play its part in scheduled reviews of the international auditing standards, and has expressed its willingness to participate in the efforts of the working group on the revision of the standard on performance audit methodology.

In support of its audit work, the SAO continuously monitors the audit reports published by the supreme audit institutions of other countries, reviewing them from auditing and methodological points of view and drawing on their good practices in its audits.

Quality-controlled operations, in-process quality assurance system

The SAO operates a process-based quality assurance system to ensure that its audit findings, conclusions and recommendations are sound, documented and the quality of its reports is high. The system is designed to ensure that the documents and outputs produced meet the quality requirements, that the audit findings, conclusions and recommendations are sound, documented and the quality of the SAO's reports is high. In-process quality assurance is supported by the embedding of legal quality assurance in all processes, ranging from the analysis of the legal environment to the legal control of audit programmes and draft reports.

Risk analysis system taking advantage of digitalisation options

The data-driven audit topic selection and risk analysis system provides the SAO with the possibility to select and audit topics and audited entities on the basis of risk. The risk analysis system and the process of risk analysis are an important part of the SAO's work, helping it to focus on the phenomena that most affect society and the effectiveness of public spending. In selecting audit topics based on the results of its risk analysis, the SAO's objective is to help reduce the risk of adverse effects and the risk of irresponsible or inefficient financial management by auditing the topics and areas identified in the risk analysis and by auditing selected organisations.

The amendment to the Act on SAO, which entered into force on 1 January 2023, strengthened the SAO's right to access public data; in the context of exercising its powers, the organisation is entitled to have direct access to, and use of, data in the public registers and databases of the state and local governments as defined in Act CXII of 2011 on the Right to Informational Self-Determination and Freedom of Information.

The SAO also partners with a number of professional organisations to help identify risks in the areas it audits and to gather the information needed

to generate and evaluate the indicators. In the course of its activities, the SAO uses data and publicly available online databases (e.g. the Treasury Register of Institutions, the register of the National Office for the Judiciary for data and reports of NGOs, the Electronic Public Procurement System), and, based on the statutory powers granted to it in the Act on SAO or through its professional partners, it has direct access to public data and specific data sets.

As the supreme audit body for public finances, the SAO has made increasing use of this data in its work since 2023, in line with its statutory powers. The SAO continuously monitors the economic events of the audited organisations, and analyses and assesses the risks identified. It monitors financial processes, the financial stability of the audited entities, their budget planning, revenues and expenditures, asset management, accounting reporting and the disclosure of public data. The SAO carries out risk analyses and operates an objective risk analysis structure by developing a system of indicators warning of risks. In view of the need for the SAO's audit to keep pace with new technologies through digitalisation, the SAO launched a digital transformation project in 2023. The main objective of the project is to enable the SAO to identify the risks affecting the financial management of the organisations it audits, to monitor them continuously and to carry out audits targeting these risks, thus enabling the risk-based selection and performance of audits. The project includes access to data supporting the risk assessment, preparation and implementation of audits, the organisation of the data made available at the SAO into a monitoring system, the development of risk maps for each audited area (central sub-sector of public finances, local government sub-sector, organisations outside public finances, state assets), and the development and operation of an early warning system based on the indicators developed.

Digital audit and data analysis environment

In February 2023, the Directorate of Information Technology was established, which, in addition to operational tasks, also manages the Digital Data Analyses Department supporting the creation, operation, monitoring and development of the digital audit and data analysis environment.

In 2023, the SAO's IT infrastructure was upgraded, resulting in reduced technological complexity, the phasing out or modernisation of outdated systems, the development of its own internal certification infrastructure and IT support for the processing of classified data. This modernisation has resulted in a clearer, more transparent and user-friendly IT system.

The modernisation process included a review of the SAO's IT contracts and, where necessary, their modification, taking into account the principles of expediency and economy.

IT renewal involved boosting internal IT competences, enabling the organisation to manage its IT systems and activities more efficiently and flexibly, thereby improving the quality of IT services and reducing the organisation's exposure and the resulting risks.

In a separate IT project, the SAO designed and developed the new IT environment to be implemented, modernised the organisation's equipment pool by purchasing laptops, improved protection against data leaks, expanded the organisation's WIFI network, and started work on rebuilding and updating its warm and hot DR (disaster recovery) site.

Significant improvements were also made in the area of IT security, including the revision and updating of the organisation's IT Security Policy and the renewal of the security breach and incident management procedures.

With the above improvements, the SAO started to develop a robust IT infrastructure to provide the organisation with reliable and highly available IT services.

Through IT development and the use of digital solutions, the SAO supported the achievement of the organisation's objectives; to this end, the organisation established a development infrastructure and created the related internal toolkit in 2023.

Application development processes were also established and regulated. The organisation follows modern methodologies and technologies (e.g. agile methodology, containerisation) for IT development, which enable it to manage its IT developments effectively and ensure that they are in line with organisational goals and professional needs.

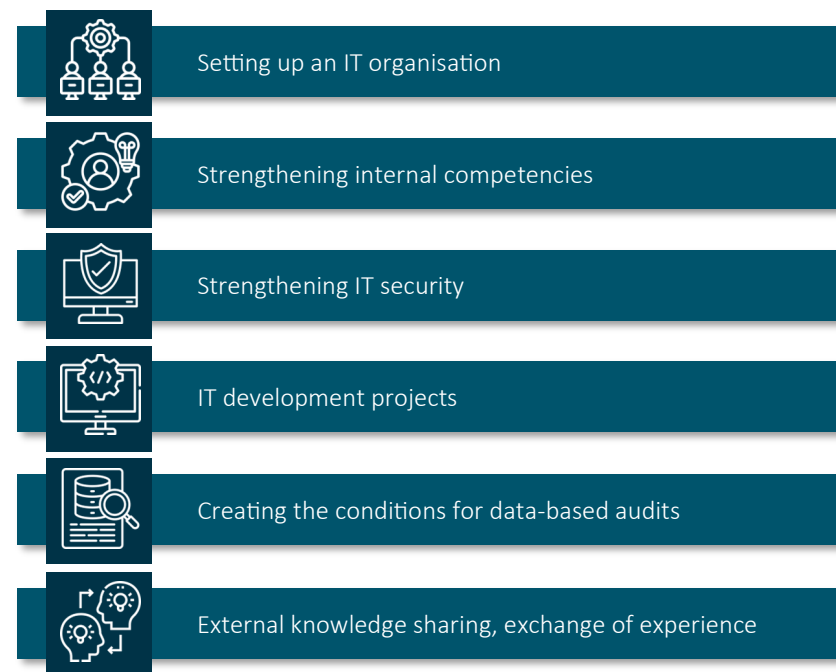
A number of developments aimed at supporting the external and internal communication of the SAO were also made in 2023, including the renewal of the organisation's website and intranet.

In order to strengthen digitalisation, the SAO started work on creating a digital audit and central data analysis environment in 2023, the most important elements of which are the data and information available in central registers and systems concerning the scope and activities of the audited organisations.

In accordance with the provisions of Article 28(7) of the Act on SAO, the SAO has started to develop a single, integrated and flexible platform equally suited for receiving, processing and displaying data.

The SAO attaches great importance to the sharing of knowledge and good practices in the field of digitalisation as well, and therefore cooperates with several national and international working groups (e.g. INTOSAI WGITA, EUROSAT ITWG, NTCA Artificial Intelligence Working Group, etc.).

Chart 38: Digitalisation developments at the SAO in 2023



EXPERIENCE FROM OPERATING THE INTERNAL CONTROL SYSTEM

Control environment

In order to achieve its organisational objectives, the SAO continued in 2023 the further development of its audit and professional rules and the internal regulations governing the operation of the SAO in accordance with the Act on SAO, as well as the complete revision of the control environment, enabling the regular, economical, efficient and effective performance of work and tasks. In the control environment thus established, staff have a clear understanding of their responsibilities, which has contributed to the creation of a coherent system of management, regulation and audit.

It was of particular importance for integrity and the prevention of corruption that the SAO introduced its Code of Ethics in 2023, and developed and implemented its external and internal whistleblowing and public interest complaint systems.

Integrated risk management system

In 2023, the SAO renewed its integrated risk management system, the primary objective of which was to ensure effective risk management based on prevention, i.e. to prevent and eliminate risks. The integrated risk management system includes the definition and identification of risks, the analysis and assessment of the risks identified, the definition and recording of risk mitigation measures for the SAO's departments, the review of risks and integrated risk management, and the utilisation of audit/review experience.

Control activities

At all levels of its work, the SAO employed control activities at the appropriate levels of responsibility, accountability and competence. Through the internal regulations established by it, the institution embedded in its processes controls that are capable of detecting and preventing risks from occurring, mitigating or completely neutralising their impact when they do occur. Controls include, inter alia, authorisation and approval procedures, the segregation of roles and responsibilities, and access to assets, accounting records, data and information.

Information and communication system

The SAO operated its information and communication system properly for the purposes of both its professional and functional work and was able to report information to the competent authorities in a timely manner. The reporting levels, deadlines and modalities were clearly defined. Information sharing fora and direct communication greatly helped the flow of information.

Monitoring system

The SAO operated its monitoring system at all levels of its professional activities. It monitored the implementation of tasks comprehensively, and tailored its manner to the specificities of the activities of the organisational unit. The SAO ensured that an internal audit function independent of operational activities was in place and worked properly, and it provided for the organisational and functional independence of internal audit.

ANNEX - LIST OF ABBREVIATIONS

ORGANISATIONS

FIDESZ	FIDESZ – Hungarian Civic Alliance
Fire Prevention Committee	National Fire Prevention Committee
HCSO	Central Statistical Office
HEPA Ltd.	HEPA Hungarian Export Promotion Agency Nonprofit Ltd.
HIPO	Hungarian Intellectual Property Office
HNAM Inc.	Hungarian National Asset Management Inc.
HPSH	Hungarian Prison Service Headquarters
KDNP	Christian Democratic People’s Party
Ludovika University	Ludovika University of Public Service
MEKH	Hungarian Energy and Public Utility Regulatory Authority
MFAT	Ministry of Foreign Affairs and Trade
MKKP	Hungarian Two-Tailed Dog Party
MNB	Magyar Nemzeti Bank, the central bank of Hungary
MoCI	Ministry of Culture and Innovation
MoD	Ministry of Defence
MoED	Ministry of Economic Development
MoF	Ministry of Finance
MoHC	Ministry of Human Capacities
Mol	Ministry of the Interior
Mol-NDGDM	Mol National Directorate General for Disaster Management
MoIT	Ministry for Innovation and Technology
MoJ	Ministry of Justice
Momentum	Momentum Movement
MTVA	Media Service Support and Asset Management Fund
National Assembly	National Assembly of Hungary
NISZ	NISZ National Infocommunications Services Company Limited by Shares
NLC	National Land Centre

NÖF Nonprofit Ltd.	National Heritage Protection Development Nonprofit Ltd.
NPHC	National Public Health Centre
NTCA	National Tax and Customs Administration
NVI	National Election Office
NW Ltd.	National Waterworks Ltd.
Police Headquarters	National Police Headquarters
PPA	Public Procurement Authority
PPAB	Public Procurement Arbitration Board
SAO	State Audit Office of Hungary
Theatre	Gárdonyi Géza Theatre
Treasury	Hungarian State Treasury

REGULATORY INSTRUMENTS

Accounting Act	Act C of 2000 on Accounting
Act CXLIX of 2021	Act CXLIX of 2021 on the Implementation of the 2020 Unified Budget of the National Media and Infocommunications Authority
Act on Archives	Act LXVI of 1995 on Public Records, Public Archives and the Protection of Private Archival Material
Act on Association Rights	Act CLXXV of 2011 on the Right of Association, the Public Benefit Status and the Operation and Support of Non-Governmental Organisations
Act on Credit Institutions	Act CCXXXVII of 2013 on Credit Institutions and Financial Enterprises
Act on Economic Stability	Act CXCV of 2011 on the Economic Stability of Hungary
Act on Economical Operation	Act CXXII of 2009 on the More Economical Operation of Publicly Owned Business Organisations
Act on Foundations Supporting the Operation of Parties	Act XLVII of 2003 on Foundations Pursuing Scientific, Knowledge-Sharing, Research, or Educational Activities to Support the Operation of Political Parties

Act on Local Governments	Act CLXXXIX of 2011 on Local Governments in Hungary	Government Decree 479/2016 (XII.28.)	Government Decree 479/2016 (XII.28.) on the specificities of the reporting and accountancy obligations of certain other organisations under the Accounting Act
Act on Local Taxes	Act C of 1990 on Local Taxes		
Act on Material Competence	Act XX of 1991 on the Duties and Competences of Local Governments and their Bodies, of the Commissioners of the Republic and of Certain Bodies subject to Central Subordination	Info Act	Act CXII of 2011 on the Right to Informational Self-Determination and Freedom of Information
Act on National Assets	Act CXCVI of 2011 on National Assets	Internal Controls Decree	Government Decree 370/2011 (XII.31.) on the internal control system and internal audit of budgetary entities
Act on Political Parties	Act XXXIII of 1989 on the Operation and Financial Management of Political Parties	Media Act	Act CLXXXV of 2010 on Media Services and on the Mass Media
Act on Public Finances	Act CXCIV of 2011 on Public Finances	new Act on Complaints	Act XXV of 2023 on Complaints, Whistleblowing Reports and Rules on the Notification of Abuse
Act on Resource Sharing	Act CXXXIII of 2006 on the sharing of resources between the Municipality of Budapest and the local governments of the districts, which sets out the revenues shared by the Municipality of Budapest and the districts and the share ratios	Official Statistics Act	Act CLV of 2016 on Official Statistics
Act on SAO	Act LXVI of 2011 on the State Audit Office of Hungary	Payment Service Providers Act	Act CCXXXV of 2013 on Payment Service Providers
Act on Water Utilities	Act CCIX of 2011 on Water Utility Services	Police Act	Act XXXIV of 1994 on the Police
Act XLIX of 2021	Act XLIX of 2021 on the Transparency of Non-Governmental Organisations Carrying out Activities Capable of Influencing Public Life	Public Finances Accounting Decree	Government Decree 4/2013 (I.11.) on accounting for public finances
Campaign Financing Act	Act LXXXVII of 2013 on the Transparency of Campaign Costs in the Election of Members of the National Assembly	Public Finances Implementation Decree	Government Decree 368/2011 (XII.31.) on the implementation of the Act on Public Finances
Capital Market Act	Act CXX of 2001 on the Capital Market	Public Procurement Act	Act CXLIII of 2015 on Public Procurement
Central Budget Act 1	Act XC of 2021 on the Central Budget of Hungary for 2022	OTHER	
Central Budget Act 2	Act XXV of 2022 on the Central Budget of Hungary for 2023	BAR	Brexit Adjustment Reserve
Central Budget Bill for 2024	Bill on the Central Budget of Hungary for 2024, presented to the National Assembly on 30 May 2023 under doc. no. T/4181	Brexit	the withdrawal of the United Kingdom from the European Union
Corporate Tax Act	Act LXXXI of 1996 on Corporate Tax and Dividend Tax	Corporate tax subsidy	corporate tax subsidy for sports clubs
Decree on Publication Models	Decree 18/2005 (XII. 27.) of the Ministry of Information Technology and Communications on the publication models for the publication of data in publication lists	EU	European Union
Decree on the Internal Control of Companies	Government Decree No 339/2019 (XII.23.) on the internal control system of publicly owned business organisations	EUROSAI	European Organisation of Supreme Audit Institutions
Election Procedure Act	Act XXXVI of 2013 on the Election Procedure	FC	Fiscal Council
Government Decree 107/2011 (VI.30.)	Government Decree 107/2011 (VI.30.) on the issuing and use of subsidy certificates for the funding for spectator team sports and rules on accounting for, auditing and repaying such subsidies	HIPA	Local business tax
		INTOSAI	International Organisation of Supreme Audit Institutions
		IPF	Investor Protection Fund
		NAMS	National Aid Monitoring System
		RBMP	River Basin Management Plan
		RRP	Recovery and Resilience Plan
		UN	United Nations
		V4+2 Cooperation	State Audit Offices of the Czech Republic, Hungary, Poland, Slovakia, Austria and Slovenia
		VAT	value added tax

INDEPENDENT AUDITOR'S REPORT

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V.1.0.

FÜGGETLEN KÖNYVVIZSGÁLÓI JELENTÉS AZ ORSZÁGGYŰLÉSI HIVATAL RÉSZÉRE az

Állami Számvevőszék költségvetési fejezet
2023. évi éves költségvetési beszámolójának felülvizsgálatáról

KÉSZÍTETTE:



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Budapest, 2024. március 14.

Országgyűlés Hivatala
1358 Budapest, Széchenyi rkp. 19.

Független Könyvvizsgálói Jelentés

Msz.: 2-05401
2024.03.14.

Az Állami Számvevőszék vezetésének, irányító szerveinek

Vélemény

Elvégeztük az Állami Számvevőszék költségvetési fejezet (továbbiakban: - ÁSZ -) 2023. éves költségvetési beszámolójának könyvvizsgálatát, amely éves költségvetési beszámoló az alábbi általunk vizsgált kimutatásokból áll:

- 2023. évre vonatkozó költségvetési jelentésből, amelyben a teljesített költségvetési és finanszírozási bevételek összege 15.003.679 eFt, a teljesített költségvetési és finanszírozási kiadások összege 14.845.948 eFt,
- 2023. évre vonatkozó maradvány kimutatásból, amelyben az összes maradvány 157.731 eFt,
- További adatszolgáltatásokból, (elszámolásokból), valamint a 2023. december 31-i fordulónapra készített mérlegből – melyben az eszközök és források egyező végösszege 4.563.959 eFt, az ugyanezen időponttal végződő költségvetési évre vonatkozó eredménykimutatásból, melyben a mérleg szerinti eredmény 548.293 eFt nyereség -, valamint a vezetői összefoglalóból áll.

Véleményünk szerint a mellékelt éves költségvetési beszámoló megbízható és valós képet ad az ÁSZ 2023. évi éves költségvetésének teljesítéséről, az ÁSZ 2023. december 31-én fennálló vagyoni és pénzügyi helyzetéről, valamint az ezen időponttal végződő költségvetési évre vonatkozó jövedelmi helyzetéről a Magyarországon hatályos, a számvitelről szóló 2000. évi C. törvénnyel (a továbbiakban: számviteli törvény), valamint az államháztartás számviteléről szóló 4/2013. (I. 11.) Korm. rendelettel (a továbbiakban: az államháztartás számviteléről szóló kormányrendelet) összhangban.

A vélemény alapja

Könyvvizsgálatunkat a Magyar Nemzeti Könyvvizsgálati Standardokkal összhangban és a könyvvizsgálatra vonatkozó – Magyarországon hatályos – törvények és egyéb jogszabályok alapján hajtottuk végre. Ezen standardok értelmében fennálló felelősségünk bővebb leírását jelentésünk „A könyvvizsgáló éves költségvetési beszámoló könyvvizsgálatáért való felelőssége” szakasza tartalmazza.

Függetlenek vagyunk az Állami Számvevőszéktől a vonatkozó, Magyarországon hatályos jogszabályokban és a Magyar Könyvvizsgálói Kamara „A könyvvizsgálói hivatás magatartási (etikai) szabályairól és a fegyelmi eljárásról szóló szabályzat”-ában, valamint az ezekben nem rendezett kérdések tekintetében a Könyvvizsgálók Nemzetközi Etikai Standardok Testülete által kiadott „Nemzetközi etikai kódex kamarai tag könyvvizsgálóknak (a nemzetközi függetlenségi standardokkal egybefoglalva)” című kézikönyvében (az IESBA Kódex-ben) foglaltak szerint, és megfelelünk az ugyanezen normákban szereplő további etikai előírásoknak is.

Meggyőződésünk, hogy az általunk megszerzett könyvvizsgálói bizonyíték elegendő és megfelelő alapot nyújt véleményünkhöz.

 Plusz Audit Kft.

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1137 Budapest, Katona József u. 14.

A vezetés és az irányítással megbízott személyek felelőssége az éves költségvetési beszámolóért.

A vezetés felelős az éves költségvetési beszámolóban a számviteli törvénnyel, valamint az államháztartás számviteléről szóló kormányrendelettel összhangban történő és a valós bemutatás követelményének megfelelő elkészítéséért, valamint az olyan belső kontrollért, amelyet a vezetés szükségesnek tart ahhoz, hogy lehetővé váljon az akár csalásból, akár hibából eredő lényeges hibás állítástól mentes éves költségvetési beszámoló elkészítése.

Az éves költségvetési beszámoló elkészítése során a vezetés felelős azért, hogy felmérje az ÁSZ-nál a gazdálkodás folytatása elvének érvényesülését, különös tekintettel a beszámolóval érintett időszakban bekövetkezett, illetve a beszámolási időszakot követő költségvetési évre tervezett szervezeti és feladatváltozásokra, és az adott helyzetnek megfelelően tegye közzé a gazdálkodás folytatása elvének érvényesülésével kapcsolatos információkat, valamint a vezetés felé a gazdálkodás folytatásának elvén alapuló éves költségvetési beszámoló összehállításáért.

A vezetésnek a gazdálkodás folytatásának elvéből kell kiindulnia, ha ennek az elvnek az érvényesülését eltérő rendelkezés nem akadályozza, illetve a gazdálkodás folytatásának ellentmondó tényező, körülmény nem áll fenn.

Az irányítással megbízott személyek felelősek az ÁSZ pénzügyi beszámolási folyamatának felügyeletéért.

A könyvvizsgáló éves költségvetési beszámoló könyvvizsgálataért való felelőssége

A könyvvizsgálat során célunk kellő bizonyosságot szereznünk arról, hogy az éves költségvetési beszámoló egésze nem tartalmaz akár csalásból, akár hibából eredő lényeges hibás állítást, valamint az, hogy ennek alapján a véleményünket tartalmazó független könyvvizsgálói jelentést bocssáunk ki. A kellő bizonyosság magas fokú bizonyosság, de nem garancia arra, hogy a Magyar Nemzeti Könyvvizsgálói Standardokkal összhangban elvégzett könyvvizsgálat mindig feltárja az egyébként létező lényeges hibás állítást. A hibás állítások eredhetnek csalásból vagy hibából, és lényegesnek minősülnek, ha ésszerű lehet az a várakozás, hogy ezek önmagukban vagy együttesen befolyásolhatják a felhasználók adott éves költségvetési beszámoló alapján meghozott gazdasági döntéseit.

A Magyar Nemzeti Könyvvizsgálói Standardokkal összhangban elvégzésre kerülő könyvvizsgálatnak a részeként szakmai megítélést alkalmazunk, és szakmai szkepticizmust tartunk fenn a könyvvizsgálat egésze során. Emellett:

- Azonosítjuk és felbecsüljük az éves költségvetési beszámoló akár csalásból, akár hibából eredő lényeges hibás állításainak kockázatait, az ezen kockázatok kezelésére alkalmas könyvvizsgálói eljárásokat alakítunk ki és hajtunk végre, valamint véleményünk megalapozásához elegendő és megfelelő könyvvizsgálói bizonyítékokat szerzünk. A csalásból eredő lényeges hibás állítás fel nem társának kockázata nagyobb, mint a hibából eredő, mivel a csalás magában foglalhat összejátszást, hamisítást, szándékos kihagyásokat, téves nyilatkozatokat, vagy a belső kontroll felülírását.

- Megismerjük a könyvvizsgálat szempontjából releváns belső kontrollt annak érdekében, hogy olyan könyvvizsgálói eljárásokat tervezzünk meg, amelyek az adott körülmények között megfelelőek, de nem azért, hogy az ÁSZ belső kontrolljának hatékonyságára vonatkozóan véleményt nyilvánítsunk.
- Értékeljük a vezetés által alkalmazott számviteli politika megfelelőségét és a vezetés által készített számviteli becslések és kapcsolódó közzétételek ésszerűségét.
- Következtetést vonunk le arról, hogy helyénvaló-e a vezetés részéről a gazdálkodás folytatásának elvén alapuló számvitel alkalmazása, valamint a megszerzett könyvvizsgálói bizonyítékok alapján arról, hogy fennáll-e lényeges bizonytalanság olyan eseménnyel vagy feltételekkel kapcsolatban, amelyek jelentős kétséget vethetnek fel az ÁSZ-nál a gazdálkodás folytatása elvének érvényesülését illetően, különös tekintettel a beszámolási időszakban bekövetkezett, illetve a beszámolási időszakot követő költségvetési évre tervezett szervezeti és feladatváltozásokra. Amennyiben azt a következtetést vonjuk le, hogy lényeges bizonytalanság áll fenn, független könyvvizsgálói jelentésünkben fel kell hívunk a figyelmet az éves költségvetési beszámolóban lévő kapcsolódó közzétételekre, vagy ha a közzétételek e tekintetben nem megfelelőek, minősítünk kell véleményünket. Következtetéseink a független könyvvizsgálói jelentésünk dátumáig megszerzett könyvvizsgálói bizonyítékokon alapulnak. Jövőbeli események, vagy feltételek azonban érinthetik az ÁSZ-nál a gazdálkodás folytatása elvének érvényesülését.
- Értékeljük az éves költségvetési beszámoló átfogó prezentálását, felépítését és tartalmát, beleértve a vezetői értékelésben tett közzétételeket, valamint értékeljük azt is, hogy az éves költségvetési beszámolóban teljesül-e az alapul szolgáló ügyletek és események valós bemutatása.

Az irányítással megbízott személyek tudomására hozzuk - egyéb kérdések mellett - a könyvvizsgálat tervezett hatókörét és ütemezését, a könyvvizsgálat jelentős megállapításait, beleértve az ÁSZ által alkalmazott belső kontrollnak a könyvvizsgálatunk során általunk azonosított jelentős hiányosságait is, ha vannak ilyenek. Könyvvizsgálatunk során megállapítottuk, hogy az ÁSZ-nál nem tártunk fel jelentős hiányosságot.

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