

DECEMBER 2020

Annual Summary Report

*State Audit Office of
Hungary*

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Presidential Foreword

Dear Reader,

The 'report', the pages of which are now revealed to the Reader, is extraordinary and special for several reasons.

It is made extraordinary by the year – 2020 – which turned out to be different for all of us than had been planned, no matter if I reflect on it as a private person or as the leader who act as the President of the State Audit Office of Hungary.

Regardless of our roles and situations, the pandemic descending on our world and day required all of us to adapt to the changed circumstances – including all challenges thereof - extremely fast.

SAO did just as well: reviewed its activities and duties – based on its mandate specified in the Fundamental Law and the Act on the State Audit Office of Hungary. SAO also scrutinized its other activities and tasks planned and the ones in progress, in addition to that implemented the necessary changes driven by a resilient and agile approach. The adaptation was facilitated by the digital transformation which has commenced in previous year, as well as by change management applied as routine. All these processes allowed the SAO to uphold and fulfil the duties of the supreme financial and economic audit body of the National Assembly during the pandemic, when the vulnerability of the integrity of organisations public funds and national assets is higher. Through its findings and recommendations, the SAO supported the National Assembly, the committees thereof, as well as the work of the audited entities in 2020 as well, in order to ensure the functioning of the well-governed state.

2020 was also special because by that year the State Audit Office has been the guardian of public funds for 150 years already and the financial guarantor of democracy for 30 years.

150 years ago, in 1870 the first independent Hungarian State Audit Office (Hungarian Royal Superior State Audit Office) was founded, and 30 years ago, in 1990 the State Audit Office started its operation, as a result of the change in regime of the Central and Eastern European region and by then as an independent entity with democratic foundations.

In fulfilling our duties the sense of professionalism is permeated by this historical fact, which urges us even more to uphold our obligations specified by law despite the difficult circumstances, and to fulfil such duties transparently and compliantly. And although the social distancing required by the pandemic has seemingly created a distance, at the same time it was also proven that the world has the means with which we can reach each other virtually, through the enhanced and generalised use of digital appliances: to a wide range of our external stakeholders, our employees, and last but not least, our partner institutions as well. It has been assisted by those changes in approach of methodology which was legitimised for the SAO by the National Assembly as well, and which changes we have been carrying out with support of digitisation.

2020 was a year of challenge for the SAO as well. It was proven that the SAO is able to fulfil its duties with the expected results; its theoretical and practical frameworks which were developed for achieving its goals set out in its strategies and are dynamically re-interpreted are suitable for achieving high-standard performance, since knowledge-sharing – on international, domestic and organisational level –, advisory activities for the stakeholders, capacity development, digitisation, organisational development through change management, measuring organisational performance, quality management and measurements and also international surveys continued to be crucial in 2020 as well.

The creation of this document is a digital achievement as well, with the help of which we would like to present and bring the year 2020 of the State Audit Office closer to the Reader.

In addition to the constant changes affecting our day-to-day life, we also present the organisational solutions and approaches which allowed the State Audit Office of Hungary to maintain our crucial audit institution duties unchanged while relying on a steady foundation in the midst of uncertainty, as well as to even surpass such solutions and approaches and to open to new opportunities.

The approach of our overview therefore goes beyond the presentation of the details of the narrowly interpreted auditor activity and provides a comprehensive view of the resilient, holistic and sustainable operation.

László Domokos

President

About SAO of Hungary

The State Audit Office of Hungary is the supreme financial-economic audit body of the National Assembly, an independent fundamental institution of the democratic system of institutions, and it is also an active member of the organisation of supreme audit institutions.

Its most important duty arising from its legal status and mission is to support the legislative and audit activity of the National Assembly through its experience. The SAO is vested with general powers to audit the responsible financial management of public finances, state and local government assets, and acting within its functions laid down by law, the SAO shall audit the administration of public finances, the implementation of the central budget, the management of national assets and the use of funds from public finances.

This role means not only obligations but responsibility as well. Taxpayers have every right to expect the supreme financial audit body of the National Assembly to keep its eye on public finances, and while concentrating on the most urgent economic and social problems, to share its experience and good practices with the users of public funds.

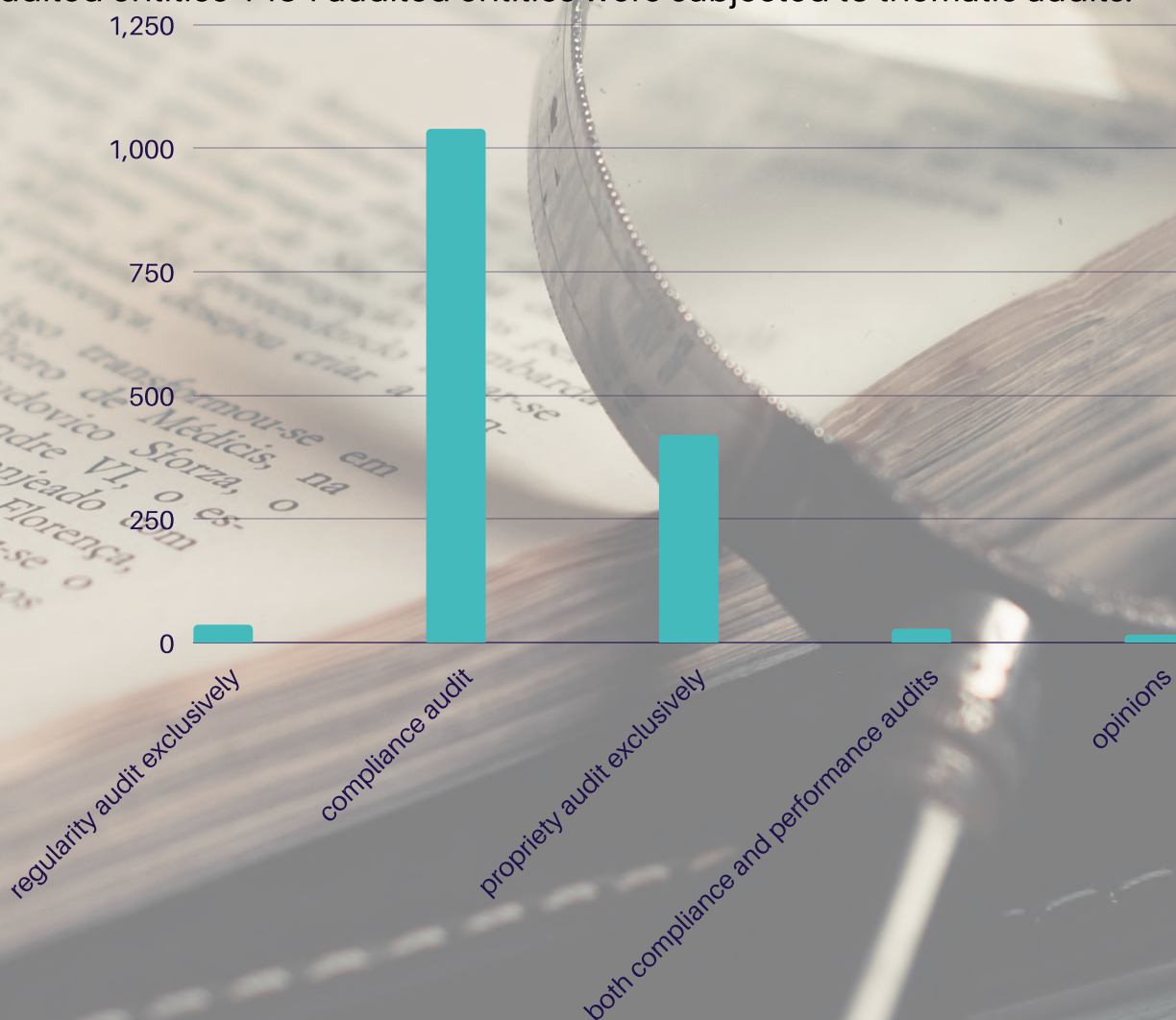
When selecting the audit topics, the SAO analyses the inherent risks of the areas to be audited and the risks experienced in case of the internal control systems of already audited organisations, and thereby the SAO has an increasing amount of information about the risks of public finances, the use of public funds and national assets. Since the SAO has this information, its audits concentrate on those areas where audits are needed the most.

Our Performance Highlights



With respect to the 2020 data, the coverage is presented in several ways: the number of reports published by the State Audit Office (217), the number of audited entities (1 534), the extent of the public funds, national assets audited, from the point of view of e.g. the type and approach of the audit, from the point of view of the sectors affected. Based on the number of reports published and the types of audits it can be established (5 types) that the majority of the audits conducted by the State Audit Office in 2020 were compliance audits.

Based on the audit approach it can be established that in 2020, out of the 1534 audited entities 1434 audited entities were subjected to thematic audits.



'Facilitating the functioning of 'good governance'

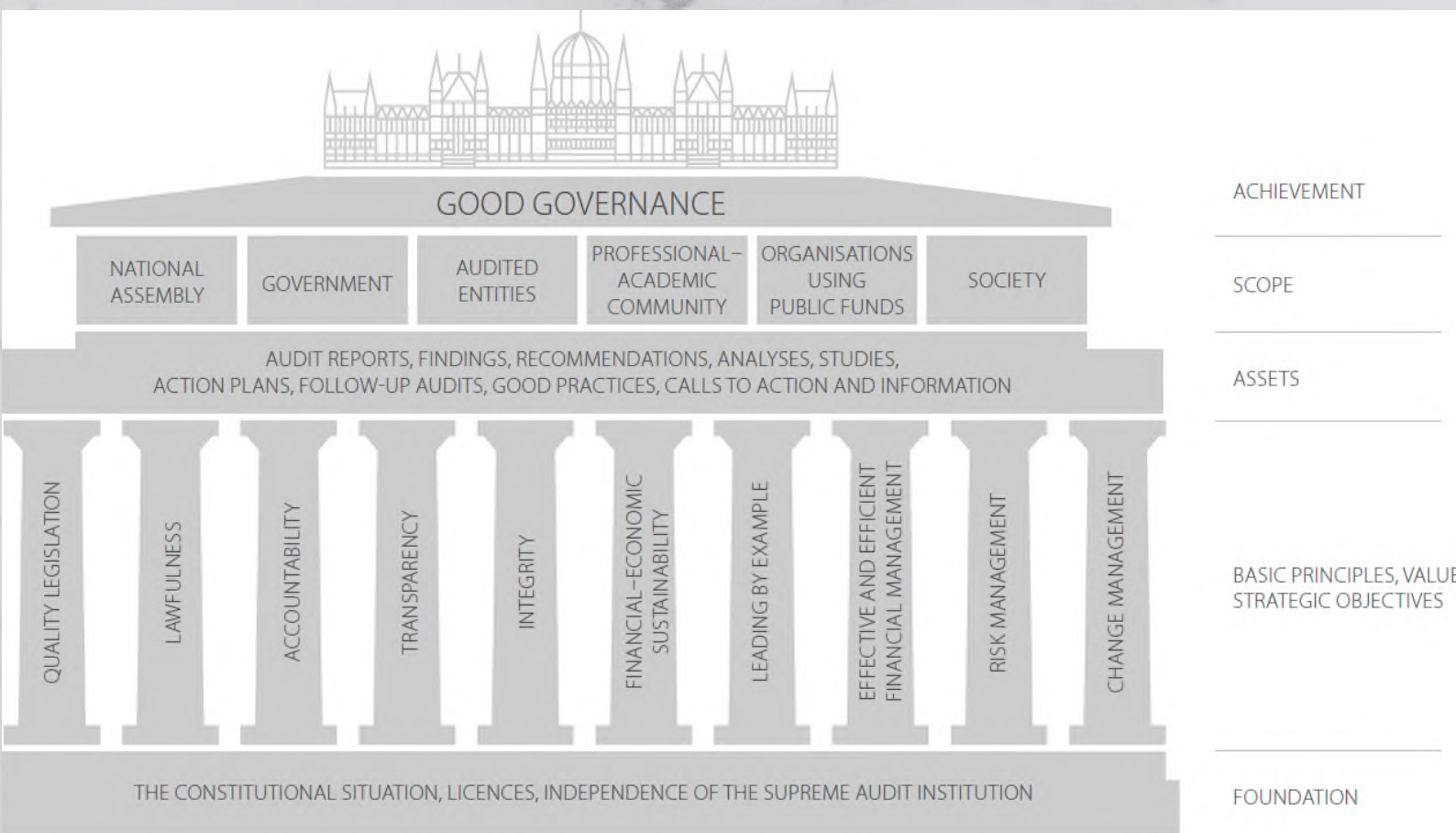
Act LXVI of 2011 on the State Audit Office of Hungary and the decrees of the National Assembly made it the duty of the supreme audit institution for public finances to support the well-governed state. The commitment of the National Assembly to the sustainable existence of the well-governed state was demonstrated by the fact that it founded the Magyary Zoltán Public Administration Development Programme in 2011 and then the Public Administration and Public Service Development Strategy 2014-2020. The objectives of these were to improve the efficiency of state functions and the increase of standard of public services, and in general to establish efficient national public administration.

The State Audit Office – taking into consideration its statutory authorisation and duties – applies the model developed in order to review and methodise its contribution to the well-governed state. The first static version of the 'Contribution of Supreme Audit Institutions to the 'Pillars of Good Governance' model presented the basic conditions, principles, means and range of supporting good governance, thereby ensuring a theoretical framework for its own activity in support of good governance. In previous years, the 'static' SAO model provided a suitable operating framework for the State Audit Office to support the well-governed state.

However, as a result of the changed and ever-changing environment, ensuring the sustainability of the well-governed states had emerged as a permanent endeavour worldwide, thus in Hungary as well. In line with this challenge, the SAO made the static model dynamic based on the criteria of sustainability, which was enabled by using risk management and change management.

In line with the idea of 'model institution', the now 'dynamic' SAO model realises the continuous improvement of the public finances situation through constant self-learning-based capacity and organisational development, as well as the means of risk management and change management, which relies on elements of risk management.

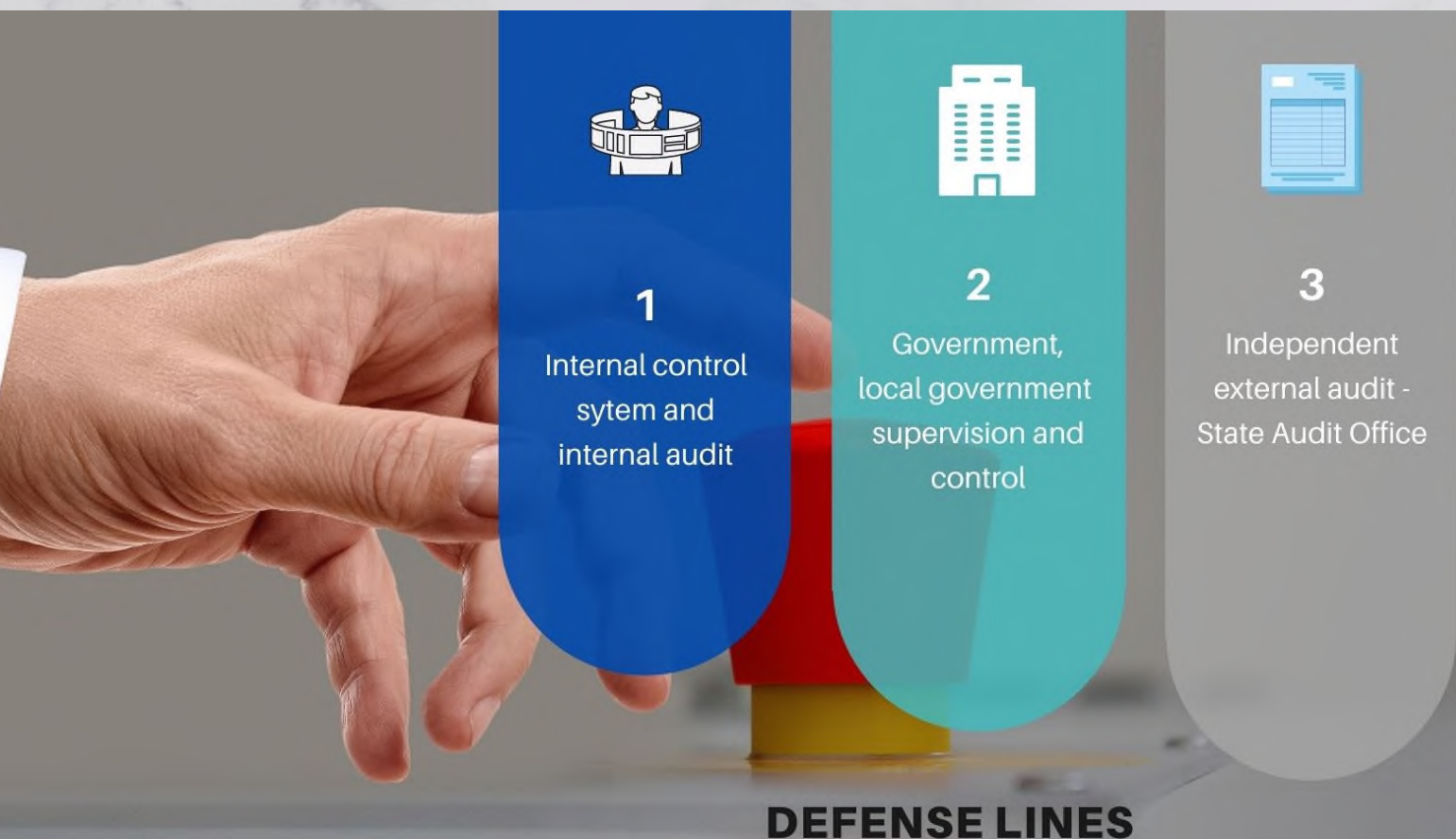
The model considers the democratic political system and the rule of law – as an environment encouraging innovation – as fundamental functional framework, and the model attempts to put the ideas related to the development and the practical reflection of the state into a system-level interpretation framework. The 'active state' motivates the SAI supreme audit body to act as well, to undertake a bigger role than before in order to support the well-governed state, and to contribute to establishing the sustainability of the welfare state by expanding its activity and functions, and thereby to contribute to the improvement of the life and security of the citizens.



Lines of Defence

The successive lines of defence of the different supervisory and audit bodies and organisations existing Hungarian public law system are designated to ensure the supervision of the use of public funds and national assets.

In order to ensure the proper, economical, efficient and effective management of the public funds and national assets and the proper fulfilment of the reporting and data provision obligations, the Public Finances Act specifies three areas in the audit system of public finances, which constitute the three lines of defence of public finances, thereby contributing to the concept of the well-governed state.





Governmental Decrees

Forms of Value and Benefit

The mandatory duties of the SAO are specified by the Fundamental Law, Act on the State Audit Office of Hungary and other acts; with that within its scope of duties specified by law, the State Audit Office is obliged to conduct audits based on the decision of the National Assembly and may conduct audits upon the request of the Government.

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The State Audit Office may conduct audits - for the fulfilment of obligations arising from other contracts undertaken - and may perform expert activities within its scope of duties in Hungary and abroad. This activity must not jeopardise the fulfilment of the audit plan of the State Audit Office.

Additional duties for the SAO may be stipulated by any act only if the financial resources necessary for the fulfilment of such duties are provided simultaneously.

In its decrees the National Assembly defines those directions according to which the work of the State Audit Office can create added value in connection with the improvement of managing public funds, as well as the use and protection thereof.

A task specified by National Assembly decree in 2020 was the performance-based and performance measurement-based audit and analysis activity, in order to enforce the principles for using public funds and to apply the statutory requirements related to the performance-based use of public funds.



The financial management of the SAO

The guarantee elements of the independence of the State Audit Office of Hungary are in accordance with the Mexico Declaration and are ensured by law. Its financial independence is guaranteed by a cardinal act, Act LXVI of 2011 on the State Audit Office, according to which the SAO constitutes a separate budget chapter. The rights of the body controlling the chapter are exercised by the President. In addition, the SAO prepares its own budget proposal and its report on the implementation of its budget itself. This report is submitted by the Government to the National Assembly without any changes, as part of the central budget and the central budget implementation bill.

As guarantee for the SAO budget it is established that the budget of the SAO must be set up so that it must not be less than the amount specified in the central budget for the previous year. Furthermore, the SAO Act may prescribe additional duties for the SAO only if the financial cover necessary for fulfilling the duty is provided simultaneously.

Upon the approval of the annual SAO Report, in its decrees the National Assembly specifies additional aspects and emphases for the fulfilment of the duties specified in the SAO Act.

All these ensure the sustainability of the SAO budget: it provides a framework for the fulfilment of the duties specified in the Act in a transparent and accountable manner. In addition to these financial independence, the further independence principles of the Mexico Declaration (INTOSAI-P 10) are also ensured for the SAO, and compliance with such principles is ensured in our organisation.

Report on Annual Activity

According to Section 4 of Act LXVI of 2011 on the State Audit Office, in the annual report prepared for the National Assembly, the President of the State Audit Office of Hungary shall provide information on the audit activity, operation and financial management of the organisation in the preceding year, as well as on the measures taken on the basis of audit findings. Each year the annual report is discussed and approved by the National Assembly. The auditor's report on the SAO's annual financial statement for the relevant year is a part of the report, which includes every year whether the SAO budget report for the relevant year provides a reliable and true picture of the execution of the budget of the relevant period and the revenue, as well as the financial situation existing at the end of the given year (on 31st December). In addition, in its annual report the SAO may initiate legislative changes based on its audit experience, in the framework of supporting high-standard law-making serving the interests of the citizens. The SAO initiates legislative changes which would allow for the system-level elimination of irregularities and inadequacies discovered in course of the audits, as well as for the renewal of the legislative environment.

In its parliamentary reports the SAO raises suggestions - based on its audit experience - for the National Assembly every year; through the system-level collection of the audit findings these suggestions could contribute to the further development of certain public finance areas, as well as to the reduction of the risks thereof. For example, recommendations related to the campaign financing act were approved in 2017, while recommendations for the registry court audits of annual account in connection with the national assets related to state-funded investments were accepted in 2019. In addition to all of the above, in 2020 the SAO prepared 15 professional background materials which were related to the bills discussed by the National Assembly at that time. The most prominent bills include the ones related to sustainable development, waste management and climate protection.

Impact of Pandemic

in relation to the Hungarian Economy

The first waves of the epidemic in Hungary did not distribute evenly in the entirety of the economy, the weight of the epidemic affected certain sectors differently. While the sectors hit by the epidemic the most (e.g. hospitality, tourism, automotive industry) experienced never-before-seen decrease in demand, certain sectors seemed unaffected by the epidemic. The government measures introduced in order to handle the epidemic, the restriction of mobility and the secondary effects of social distancing could be felt in on the national economy level as well.

Through the measures taken in the framework of the coronavirus protection, the Government - among others - activated financing mechanisms which help enterprises keep their employees during the crisis caused by the epidemic, contribute to maintaining the purchasing power of households, and which prevent the population who are affected by the epidemic the most from losing their homes.

The emergence of the new wave of the epidemic and the risk that it may be even longer, as well as the international and domestic government responses given to these affect the development of economic processes - to an unforeseeable extent and - significantly, and through the change in the resistance of enterprises, these affect the workforce demand and thereby the employment situation as well. As a result, labour market operators are threatened by numerous risk factors. The enterprises which are about to recover may be swept away by this new shock, and the restrictive measures the decreasing demand for products and services, as well as the vulnerability of supply chains may cause problems.

Considering the uncertain situation, it became important for enterprises to strengthen their resistance, to have the stability of supply chains, to redesign the business continuity and business models, which include the renewal of the working methods.

Impact of Pandemic

Affects on SAO of Hungary

In the shadow of the crisis that emerged due to the epidemic, human resources can be eroded by numerous factors, such as unemployment, especially permanent unemployment, problems with school education, the hindrance in workforce mobility.

In a state of danger the efficiency of the operation of the public administration

and the security and quality of access to public services have enhanced effect on the day-to-day life of the citizens and the activity of enterprises. Through the functioning of the public administration and public services the management of the epidemic affects the competitiveness of the countries. For this reason it is important that the government measures taken in order to control the epidemic ensure that access to public services remains uninterrupted.

In 2020, SAIs had to prove themselves in a new working environment - moreover, in new legislative environment -

caused by the due COVID-19 pandemic. With respect to Hungary, Article 54(2) of the Fundamental Law stipulates that the application of the Fundamental Law may not be suspended even under a special legal order. Consequently, as the financial and economic audit body of the National Assembly, the SAO was obliged to fulfil its constitutional duties during the state of danger as well, taking into consideration the circumstances caused by the epidemic, of course.

As a result of the COVID-19 pandemic, new challenges emerged on both national and organisational levels.

Due to economic changes new audit opportunities and new risky areas emerged, which often accompanied the expansion of focus areas to be audited. The changes in the financing mechanisms made the existence of the integrity principles, as well as ensuring and auditing the transparency of the public sectors special priorities.

Neither the organisations audited by the State Audit Office nor the financial management of the organisations using public funds and national assets were left unaffected by the pandemic. The implementation of the measures adopted by the Government in order to guard against the epidemic compelled the audited entities to redesign their duties and the necessary funds to a certain extent, while they also had to ensure the continuity and sustainability of their own operation.

For this reason, in course of the implementation of its audit programmes the State Audit Office took sustainability into consideration as well. This meant that in course of the scheduling of the audits the SAO took into consideration the above challenges affecting the audited entities, therefore the audits could be realised when the conditions were appropriate for the audited entities as well, at the same time, compliance with the audit programme of the SAO was still ensured.

The need to react to the pandemic required the SAO to review the sustainability of the budget of public finances as well, since as a consequence of the state of danger - in addition to the effects of decreasing output and consumption - the risks accompanied by the "greying, blackening" of the economy, corruption, the depreciation of national assets could emerged stronger, which could lead to additional budget revenue losses.

The economic outlooks worsening due to the pandemic may also result in the postponement of investments, the decline of R+D activities and the worsening of external debt indicators, which are obstacles to a more competitive and sustainable economy.

'SUSTAINABLE DEVELOPMENT GOALS' PUT IN FOCUS OF THE SAO'S WORK IN 2020

Through its macroeconomic analyses, the SAO has the opportunity to highlight its short term and long term risks related to the coronavirus epidemic, the effects to be expected as well as the need to mitigate such effects in due time.

The government duties aimed at maintaining the functioning of the economy, as well as the goals to support sustainable economic growth has set the State Audit Office new tasks. During the COVID-19 pandemic, of the 17 Sustainable Development Goals specified by the UN Sustainable Development Framework the economy area ('8. Decent Work and Economic Growth') was not the only one that faced difficulties. Since the realisation of the SGDs faced serious risks worldwide, it is even more significant that the SAO contributes to the support of the SGDs on the national level as well, with the help of its own tools.

1. NO POVERTY



3. GOOD HEALTH AND WELL-BEING

4. QUALITY EDUCATION



6. CLEAN WATER AND SANITATION

12. RESPONSIBLE CONSUMPTION AND PRODUCTION



13. CLIMATE ACTION

SAO TOOK ACTION IN THESE TOPICS THROUGH ITS ANALYSES AND AUDITS

The acceleration of digitisation

As a result of the decreased mobility caused by the epidemic, audit offices could handle the new audit challenges the most effectively by switching to the digital audit environment. Audit offices too had to solve the transition to home office work and the digitalised audit environment within a few weeks, in order to be able to continue their work properly and efficiently, while also protecting the health of their workers and their operating environment as well.

The increased appreciation of digitisation had been noticeable even for the epidemic, however, it is true that this trend was accelerated by the economic environment that accompanied the COVID-19 situation, and which often transitioned to remote working. The requirement of modern IT solutions was already established by Article XXVI of the Fundamental Law of Hungary as well.

This article of the Fundamental Law stipulates that the State shall strive to use the latest technical solutions and the achievements of science to make its operation efficient, raise the standard of public services, improve the transparency of public affairs and promote equality of opportunity.

The establishment of the digital audit environment was set as a goal by the State Audit Office, in order to increase the efficiency of the audits.

In its Decree No. 44/2019. (XI. 19.), the National Assembly acknowledged the 2018 activity of the State Audit Office performed in order to transition to the digital audit environment, and the National Assembly also expressed that it supported all further activities of the State Audit Office which facilitate the provision of data from authentic sources as a result of digital data processing, as well as the authenticity and compliance of data provision by the audited entities and their reporting in compliance with the legal requirements.

Content no longer available

The dynamically changing environment is posing two great challenges to the SAO continuously; the first is leading by example, and the second is overcoming the digitisation challenges on the organisational level. Digitisation and the digital transformation are organisation-level tasks and a culture change in course of which new methods and tools have to be introduced in the organisation by making use of the opportunities provided by technology.

Keeping up with the explosion-like development requires the organisations to have paradigm shift, new approaches, new methods and new thinking, while keeping in mind that digitisation is the mean and not the target.

The SAO created its vision for the complex digital audit environment, in course of which it relies on the changes of the domestic, the international and the technological environment.

The SAO has already identified the new challenge that the segments of the new, modern technologies, the INDUSTRY 4.0, are creating opportunities for the state audit offices for which they have to prepare in an innovative way.

In the case of SAIs, the changes are massive, the digital environments of both the audited entity and the auditor are changing at the same time. The internal technological environment must be developed and also adapted to the external control environment simultaneously, as well as the appropriate channels must be created towards the concerned parties, while the points of connection and interfaces must be developed as well.

In addition to the provision of technological opportunities, digitisation also requires an appropriate organisational culture. In preparation for the changes, in recent years the SAO has developed a self-learning organisational model and is operating a complex change management framework,

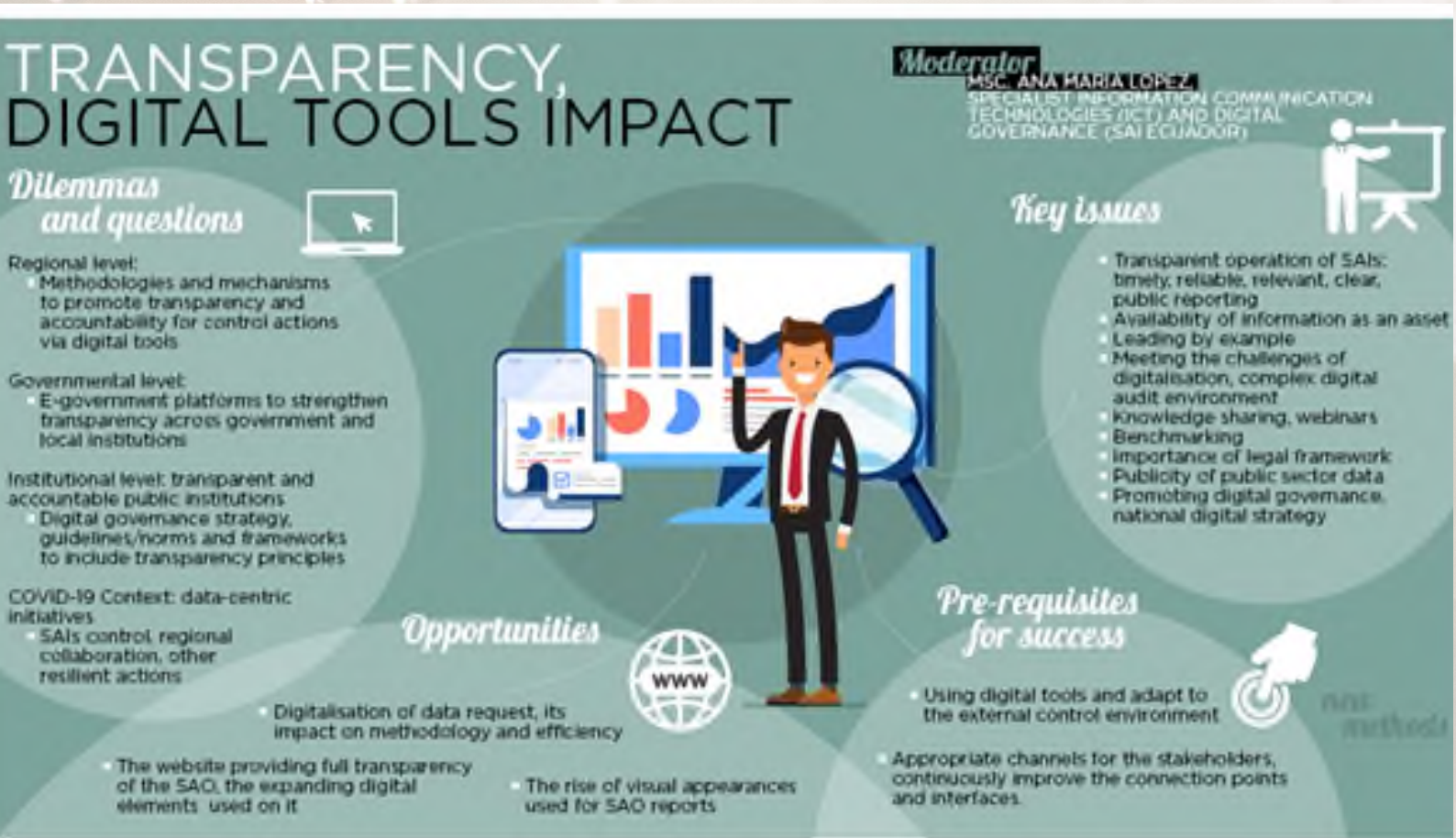


Telework is no longer just an option
The year 2020 was a breakthrough in the spread of telework and home office in Hungary. In the first half

which provides a good foundation for managing the technological challenges and opportunities.

Nevertheless, change is realised by people after all, therefore digitisation can only be successful if the employees are able to apply new tools, new methods and approaches, and are able to create new things. For this reason, the SAO gives priority to the development of digital skills within the organisation, in order to introduce digital thinking within the organisation. It is important to see that during 2020, in a new work environment, the organisation is pursuing innovative work, in course of which organisational and technological change took and is taking place simultaneously.

Owing to the development of audit approaches and procedures, the digital tools also act as an incentive to increase transparency and accountability, which also increases the impact of the SAO work - this conclusion of the SAO is supported by the experiences of numerous peer institutions.



The SAO as an organisation leading by example

The SAO laid down the principles of transparency and accountability also in order to set a good example for public sector institutions. Since the various economic, operational and integrity risks arising from the COVID-19 pandemic intensified, it is more important than ever to be able to look to the State Audit Office as an organisation leading by real, actual example for public sector institutions. In course of its audits the SAO not only expects - and audits - compliant management and operation but on the one hand the SAO itself sets a good example as well: through its own example and audits, the SAO encourages the more compliant, transparent, accountable and sustainable operation of the audited entities; and on the other hand, the SAO also supports them in this through its advisory activity.

Audit Methodologies and Innovations

IN RETALION TO THE HUNGARIAN ECONOMY

The prerequisite for the efficient and high-quality fulfilment of duties is the elaboration and further development of those methodological documents that fit the goals and duties, as well as the maintenance of continuous, quality-focused methodological

development and the adaptation of good international practices.

As one of the cornerstones of its independence, the State Audit Office develops its own audit rules and methods.

Pursuant to the Act on the State Audit Office, in exercising his regulatory power, the president of the SAO shall determine and publish the rules and methods of the audit conducted by the audit office. In course of creating these rules, the president of the SAO takes primarily the constitutional and other statutory requirements applicable to the SAO's operation, the 'Strategy and mission of the State Audit Office', as well as the internal rules applicable to its operation into consideration; furthermore, he considers the INTOSAI audit standards. As a result of the continuous development of the audit methodologies the audits have become more efficient and effective, and the added value of the SAO's work has increased.

The State Audit Office conducts out its audits on the basis of an audit plan, in course of which it takes into account the audit professional rules and methods, as well as the ethical standards. The audit program is always provided to the audited entity in advance for information purpose.

Based on its duties specified by the SAO Act, the State Audit Office typically performed individual audits until 2011, which allowed for many, but a finite number of audited inspections.

In line with the strategic goal of increasing the audit coverage, the SAO developed thematic audit plans, which were already suitable for auditing numerous entities which had the same characteristics and operated in the same legal environment.

In addition to more efficient and effective audits, thematic audits allowed for the further increase of the audit coverage, and made it possible to summarise and give structure to the experiences of thematic audits and to identify the risky areas for the future, while bearing in mind the principle of significance.

The focus was then on the issue of further efficiency gains, i.e. how the audit can be made unique during thematic audits, so that the irregularities and risks that may be discovered can be assessed in detail and context. This means that different significance criteria should apply to the different audited entities.

The solution was the modular approach, which ensured that possibility of individual audits focusing on the risks identified in the given organisation and the irregularities that arose even within the frameworks of thematic audits. The audit program modules can be assembled to form an audit depending on the risk assessment, capturing the significance and providing the greatest possible added value in the organisation concerned during the audit.

As a result of this methodological development, the audits became even more efficient and made it possible to define the data requests even more precisely and to make them targeted. An especially important step in terms of audit methodology was the development and implementation of risk-based and monitoring-type audit methods based on the newly established assessment methods.

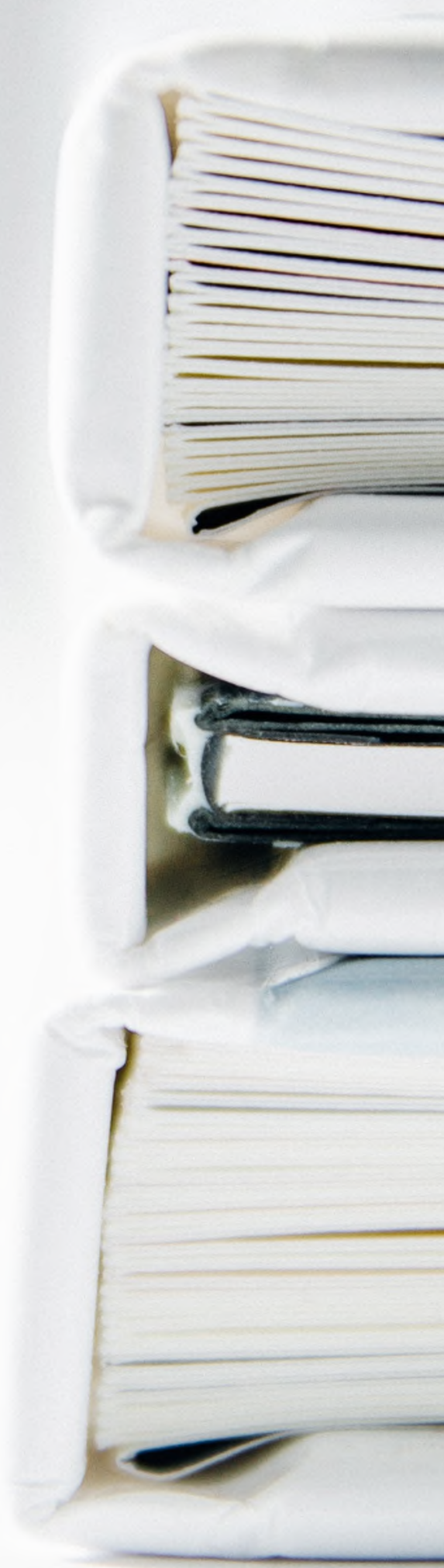
The risk-based audits provided opportunity for the SAO to get an objective picture of the risk areas present in the entities, based on audits conducted among a wide range of audited entities, by segmenting them in groups based on the evaluation of significant documents based on specific aspects.

Based on its findings, the attention of the leaders of the audited entities can be directed to these risk areas, furthermore, it creates the possibility of making the detailed audit even more targeted.

In addition, through the use of the monitoring-type audits, the audit coverage can be increased significantly and segments which have never been audited before can be assessed. With the help of the monitoring-type audit, through the - almost real-time - evaluation of few, but targeted documents that cover a specific scope of audited entities and which are current and effective at the time of the audit, the SAO is able to identify the financial-economic risks and irregularities, and then it can improve the compliance and efficiency of the use of public funds by raising awareness to such.

The emergency emerged as a result of the COVID-19 pandemic also poses a high risk of corruption, therefore the establishment and operation of anti-corruption systems in public sector organisations is of increased importance.

The effective defence against the risks of corruption increased during the coronavirus period is supported by the current, system-wide, present time monitoring audit and evaluation of the integrity of all Hungarian local governments - i.e. their protection against corruption - which was launched by the SAO in 2020.



The purpose of these audits by the SAO is not to look for mistakes but to at this time improve the public finances situation, to increase the level of regulation, the protection against corruption and the transparency of those organisations which use and manage public funds, and ultimately to strengthen the public trust surrounding the operation of the organisations.

Performance audits are an increasingly important segment of the audit activity of the State Audit Office, considering also that in Hungary the Fundamental Law requires that the economical, efficient and effective management of public funds and national assets is ensured. This means that the properties of the state and the local governments are national assets, the management and the protection of which shall aim at serving the public interest, meeting common needs and preserving natural resources, as well as at taking into account the needs of future generations. State-owned enterprise (SOE) shall operate in compliance with the law, independently and responsibly, in accordance with the requirements of legality, expediency and effectiveness.

Public funds and national assets shall be managed according to the principles of transparency and the corruption-free public life. Accordingly, in connection with the audit of certain area the SAO regularly assesses whether the conditions of carrying out a performance audit are met.

If the conditions are met - if necessary, in several stages, - the audit will be planned and then conducted in accordance with the principle of modularity mentioned above.

The performance audit shall make findings and draw conclusions regarding the fulfilment of the criteria for effectiveness, efficiency and economy - as benchmarks - applicable to the subject of the audit. In the case of public finance organisations, it is essential to take measures that provide a framework for the sound management of public funds and national assets, that set effectiveness as a goal, ensure efficiency or the measures aimed at improving efficiency, i.e. establish a framework for performance management.

In many cases, the SAO evaluates the performance of the audited entities with the requirements of compliance, propriety and performance, since the basic criteria of effectiveness in the public sector is the compliant fulfilment of public duties, that also takes into account the social expectations. It is the duty of all organisations to manage the public funds entrusted to them in a way that ensures that the public funds are used for designated purposes and to contribute to the performance of the organisation. The COVID-19 pandemic that erupted in 2020 found the State Audit Office in a situation where professional methodological conditions for rapid response were already available to manage the emerging crisis, the deployment of which was supported also by forward-looking IT developments and the human resource rotation system that has been used for years.



Quality Management in Change

The risk management system is a set of management tools and methods, the elements of which are risk identification, analysis, classification and monitoring, and where necessary, the mitigation of risk exposure. Just like any other organisation, SAIs face a number of risks in course of the fulfilment of their mandates, which may also affect the quality of the performance of their duties. Due to the above, the risk management system of state audit offices must cover all risks, from high-level organisational matters to the risks associated with the specific audit duties. In this way the quality management is also a system of tools suitable for managing risks. The State Audit Office has been committed to quality management for years.

The quality management and performance measurement of state audit offices go hand in hand, the quality management system verifies the performance and guarantees error-free operation.

In 2020, under the auspices of the EUROSAI Quality Management Project Group, the SAO mapped the quality management practices of the European state audit offices.

Furthermore, the SAO has been operating the 'Quality Management Good Practices' international database for audit offices on its website for several years.

The project activities related to quality management carried out by the SAO in the international community contributed to the identification of good practices for the SAO itself as well, which also ensured the professionalism and the credibility and relevance of the SAO's activities. Meanwhile, the self-assessment on the field of quality management which commenced in 2019 and ended in 2020 reviewed the level of establishment of the quality management system comprehensively, as well as the practical implementation thereof through the audit samples included in the self-assessment.

And by implementing the action plan set up as a result of the self-assessment, the new procedures were integrated into the normal processes of quality management applied until then.

In addition, at least once a year the SAO audits the enforcement of the principles and standards defined in the relevant international standards - i.e. the IFPP - with respect to organisational processes (for example: INTOSAI-P 10, INTOSAI-P 12, INTOSAI-P 20, ISSAI 130 and 140).

Furthermore, the annual monitoring extends to compliance with three-digit ISSAIs applicable to audit methodologies. The reports are suitable for allowing the entirety of the organisation to endeavour to apply the requirements and recommendations of the IFPP consciously and to provide deliberate approach if any discrepancy is identified.



Going forward, meeting the requirements

In the current - pandemic-struck - situation - it is not sufficient if supreme audit institutions perform their basic activities - i.e. conducting audits, preparing analyses containing audit office experiences and other economic analyses - but supreme audit institutions shall take on additional functions and duties (e.g. providing trainings, knowledge transfer, raising financial awareness) in order to ensure the continuous effectiveness, efficiency and economy of public finances.

Pillars of SAO's activity

- audits
- analyses
- advisory activity

The first and second pillars had been built, and their efficiency and efficacy are ensured through continuous improvements. The third pillar - i.e. advisory activity - is in constant need of adjustment, adapting to the expectations of external stakeholders and the changing economic and social focus.

SUBPILLARS OF THE ADVISORY PILLAR OF THE SAO



Internal Knowledge-sharing



Supporting Stakeholders (Auditees)



University Knowledge-chain



International Knowledge-Surface

The key point of the SAO's advisory pillar or role is that it is closely related to the basic activities of the State Audit Office, uses and utilises the audit and analysis experiences in a wider scope, as well as the audit methodologies and organisational development models developed by the SAO. Thereby the knowledge products of the SAO are more widely utilised,

they are featured in numerous forums, and they will reach more stakeholders. Currently, integrity, capacity building, product development, organisational performance measurement, as well as supporting the performance management of the audited entities are priority areas of the SAO's advisory activity.

Ensuring Integrity

The Fundamental Law of Hungary stipulates that 'every organisation managing public funds shall publicly account for the management of those funds. Public funds and national assets shall be managed according to the principles of transparency and of corruption-free public life'.

There was a change of paradigm in the fight against corruption during the recent years, where prevention came to the forefront.

The strategic and sustainable response to corruption is the establishment and strengthening of integrity, in which the State Audit Office has a crucial role. The integrity model which supplements the commonly used, statutory prohibition-based integrity model was introduced by the State Audit Office in Hungary.

At SAO's initiative, a unique anti-corruption alliance was established in 2011 in the spirit of the 'good governance' in order to propose this model, and the range of institutions which supported more

efficient action against corruption and were committed to strengthening integrity have been continuously increasing year by year. At the same time, innovative initiatives were implemented within the framework of the SAO Integrity Project which contribute to raising awareness to the threats affecting public institutions,

the mapping of risks and the strengthening of control systems ensuring protection. As a result of the work of the State Audit Office, the concept of integrity has been integrated into the audit methodology of the State Audit Office by now, has appeared in the thinking of public institutions and in the organisational culture of the public sector.

SAO ACTIVITIES IN ORDER TO STRENGTHEN THE INTEGRITY APPROACH AND CONCRETE THE DEFENCE SYSTEMS DESIGNATED TO PREVENT CORRUPTION

AUDITS

- Evaluates the establishment of the controls of organisational integrity
- Prepares summary analysis of the audit experiences.
- In case of inadequacy, inaccuracy it calls the attention to the improvement, set-up of the control system.

CONSULTING

- Trainings for the leaders of public sector entities, as well as for integrity consultants
- Cooperation with the University of Miskolc in implementing an ethical public finances leadership training and good governance conferences.
- In cooperation with the University of Public Service accomplishment of training for integrity consultants.
- Self-tests, supporting integrity-based, transparent and accountable public funds use.

INTEGRITY SEMINAR

- Integrity development, knowledge sharing on international level.
- Correspondence with international partner institutions – studying and utilising the international practice of combatting corruption, exchange of experiences.



The 7th International Integrity Seminar starts soon

The State Audit Office of Hungary organises the International Integrity Seminar for the seventh time

International IT events

In line with its strategy, the State Audit Office monitors the international information technology trends - which support audit tasks and designated for ensuring the quality fulfilment of other organisational tasks - by regularly attending various international conferences and workshops on the subject.

In 2020, the State Audit Office participated in 5 international IT forums, 4 of which were held online due to the outbreak of COVID-19 epidemic.

In 2020, the only 'in-contact' IT-related professional event of the SAO was the annual meeting of the EUROSAI IT(A)SA working group, at which the representatives of the SAO presented their practical experiences gained at the SAO of Serbia.

The State Audit Office of Hungary hosted the 29th annual meeting of INTOSAI WGITA in November 2020, the topic of which was 'Strengthening digital awareness- acquiring IT audit - knowledge, audit and advisory role'.

The level and quality of controls developed for risk management determines the depth (level of detail) of a potential IT audit.

In addition, the SAO actively participates in the activities of the EUROSAI and INTOSAI working groups related to IT (EUROSAI ITWG, EUROSAI IT(A)SA, INTOSAI WGITA), in the framework of which delegates of the State Audit Office have given a number of presentations in recent years.

Capacity Building Model

The State Audit Office of Hungary, as an 'model institution', is constantly developing its available capacities in order to use public funds and operate as efficiently and effectively as possible. As a result, the utilisation of the SAO's work (audits and analyses) can expand through the growth of social trust and the increase of macroeconomic indicators affecting the performance and effectiveness of the national economy.

The most important difference between the capacity building models of the SAO and the IDI is that the SAO has the opportunity to have an effect on the external environment, therefore the emphasis in course of the capacity development of the external environment the SAO puts the emphasis on the well-governed state and social utility.

In order to control and monitor its performance as efficiently as possible, the State Audit Office developed a dynamic capacity building model.

Thus, the SAO not only adapts to its external, operational environment (for example, by operating in compliance with the law) but also has the opportunity to influence it as well, give feedback to legislators, and thereby not only to develop its own organisational capacities but also make certain processes of the operational environment more efficient.

The effective feedback process cannot be implemented, or, in any case, cannot be fully implemented by any organisation other than the SAIs. Therefore one of the specialties of the SAO's capacity building is the capacity development of the operating environment, with an economy-shaping effect.

Capacity Development

Enhancing performance

More powerful and broader added values

Widespread social benefit and Well-governed State

In this way supreme audit institutions (depending on their mandate, of course) have a shaping effect not only on the society but on the economy as well.

We distinguish three aspects of capacity building in the model compiled by the SAO:

1. capacity development of the operating environment of activity,
2. capacity development of professional resources,
3. organisational capacity development.

The capacity development of the operating environment includes the institutional, legal and statutory framework of the SAO's operation. The common feature of these tools is that they can be interpreted at the system level, i.e. they include processes characteristic of the SAO as a whole, as well as elements influencing and developing the external environment, i.e. other tools with a national and international impact and a decisive role in shaping the legal and regulatory environment.

When developing the capabilities of the operating environment, the SAO also contributes to the reduction of risks to the national economy. A risk to the national economy is any process, the occurrence of which may bring a negative impact on the performance of the national economy with an unknown probability or to an unknown extent. The State Audit Office of Hungary continues to strengthen its advisory activity pursued in the field of identifying national economy risks with its audits carried out based on the evaluation of the risks of the particular sectors in terms of exposure to threats.

The term 'professional resources' covers the skills and knowledge required for the supreme audit institution to fulfil its obligations for carrying out audits. The development needs of professional resources can, of course, vary depending on the different types of audits (financial, compliance, performance) performed by the supreme audit institution.

The most important tools used in the capacity development of professional resources are university collaborations, the development of the SAO's internal knowledge repository, and the continuous development and expansion of the system and educational content of internal trainings.

The organisational capacity development includes the optimisation and updating of processes within the organisation, such as HR activities, process development, renewal of audit processes and procedures, and modernisation of the IT system.

A common feature of these processes is that they help the State Audit Office of Hungary achieve its already set strategic goals by enabling more efficient and effective operation and use of resources, thus increasing the performance of the organisation.

The State Audit Office strives to measure its performance in all areas of its activity, in order to achieve the most efficient and effective operation possible. As a result, the backtracking - i.e. the auditing - of capacity development was built in the capacity building model as well, which has two tools; one is self-assessment, the other is Peer Review.

The audit or backtracking of capacity building shows the extent to which the implementation of the predetermined directions and priorities of capacity development have been achieved.

As a result, it can be shown whether the organisational capacity development achieved the expected results. If the expected results were achieved, then the organisation can set and start realising new capacity development goals in order to perform its activities as efficiently and effectively as possible.

An important aspect is that audit institutions usually operate with limited, pre-established resources (e.g. budget, number of employees), however, due to the increase in risks and social impacts, in course of the annual operation of the audit institutions and their planning it should be considered whether the audit institutions have resources of appropriate quantity and quality in order to be able to carry out the annual work at the desired level of quality.

And in order to achieve the desired level of quality, their resources - and also their capacity development - have to be prioritised. Thus, the SAO has to prioritise capacity development opportunities in every planning period, in order to focus the available resources on achieving those goals on which the organisation intends to place the greatest emphasis during the period concerned. A prioritisation methodology was also developed for the model, which allows the SAO to implement the most optimal developments at first.

CAPACITY BUILDING MODEL OF THE SAO OF HUNGARY

PROFESSIONAL CAPACITY DEVELOPMENT

INTERNAL TRAINING AND DEVELOPMENT

INTERNAL KNOWLEDGE-CLOUD

COOPERATION WITH UNIVERSITIES

ORGANISATIONAL CAPACITY DEVELOPMENT

AUDIT METHODOLOGIES

QUALITY CONTROL METHODOLOGY

ORGANISATIONAL PROCESSES

HR

IT & DIGITISATION

DEVELOPMENT OF THE EXTERNAL ENVIRONMENT

NATIONAL EXTERNAL ENVIRONMENT

WELL-GOVERNED STATE

PUBLIC VALUE AND BENEFIT

DEVELOPMENT OF AUDITEES

INTERNATIONAL EXTERNAL ENVIRONMENT

INTERNATIONAL KNOWLEDGE-SHARING

Boosting impact by measurement - the GAP model

In course of their audits, audit institutions examine the operation of other organisations, however, audit institutions themselves rarely undergo strict audit. This could run the risk of the audit institutions not functioning efficiently or effectively enough, which is also important because they use substantial amounts of public funds. For this reason, audit institutions should act as 'model institution' in order to maintain and further strengthen public confidence in their findings about the audited entities. In our opinion, the other lesson-learnt of the environment transformed by the pandemic is that every institution must pay special attention to measuring its own performance, since such measurement reveals the actual content and efficiency of the work performed.

'In line with the international trends, the SAO developed its organisational framework for performance measurement.'

There are several tools and models available to measure performance, the importance of discovery and the topic is therefore not new: for example, PMF model, but Peer Reviews and self-assessments can also be performed on the topic.

None of these is completely free of subjectivity, however, what they have in common is that they are based on the shared INTOSAI principles and make the evaluation of organisational performance valid, either carried out on partner organisations or on the assessed audit institution itself.

In line with the international trends, the SAO developed its organisational framework for performance measurement, since organisational management based on decision supported by up-to-date, relevant and reliable information, as well as the measurability of the utilisations of SAI's work are of special importance to all SAIs.

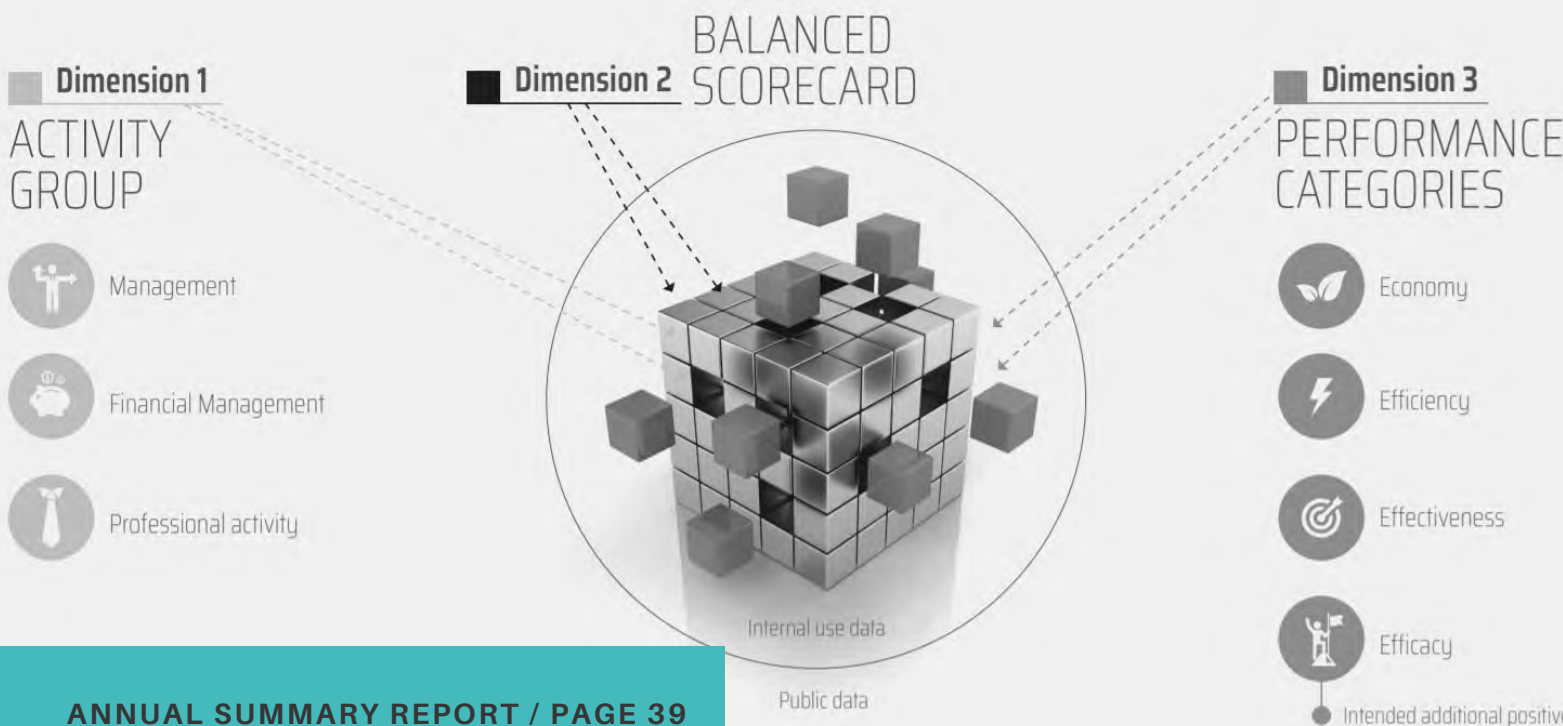
All organisational processes contribute to the accomplishment of the mission of a 'well-managed organisation' capable of supporting the well-governed state.

Starting from the creation of the target system, strategic management relies on implementation management data, the data of multiple-aspect measurements and tracing activities



carried out for the organisational processes in course of the operation of the monitoring and feedback system, as well as on the information generated from such data.

Based on this logic, performance management extends to the entirety of the operation of the organisation. The processes that ensure the operation of the organisation can be divided into three main groups of activities, which are the following: management, financial management and the performance of professional duties.



The Balanced Scorecard (BSC) constitutes the second dimension of the model, which is a tool of strategic management system. It breaks down the strategy into goals first and then assigns tasks and indicators that measure the tasks to the various perspectives, which are the following: financial performance, internal operational processes, organisational knowledge, continuous development, stakeholders.

The structure and segmentation of the organisational performance indicator system allows the data owners and data providers to be connected to the various data. For this reason, the collection of the data can be realised through periodical data provision and data requests. The third dimension of the model is made up of the performance categories, which are the following: economy of scale, efficiency, effectiveness, efficacy.

The 'drawers' created by breaking down the indicators characteristic for the activities into views and classic performance categories could hold two types of indicators. The collection, generating and analysis of indicators intended exclusively for internal use by managers constitute a task where special attention must be paid to the processing of the information due to the exclusion of external or full internal publicity of the data. The status or possibly the development of other indicators may be available to the external public as well, e.g. in the SAO's Annual Report on its activities.

Flexibility, agile management and resilience

The organisational structure of today's organisations – thus that of the supreme audit institutions – is particularly complex due to the wide range of duties.

Since the organisational culture, the structure of the organisational units, the internal communication procedures, the decision-making system and the coordination mechanisms are very complex, an open attitude is required in the constantly changing environment in order to accept the changes and implement them successfully. Furthermore, in 2020, as a result of the economic and communication transformations urged by the COVID-19 epidemic, the organisational flexibility and resilience of SAIs have become especially important. The two supporting tools for that are change management and agile organisational management.

With regard to change management situations, the process of the change management and the implementation of the changes can be achieved the most efficiently with the help of project management tools. The planned, targeted and goal-oriented implementation of change management requires concentrated resources, furthermore, the process and the tasks of implementing change may need to be planned and organised. This approach can be implemented the best in project-based organisations, by interpreting the tasks as projects. Leading the change management

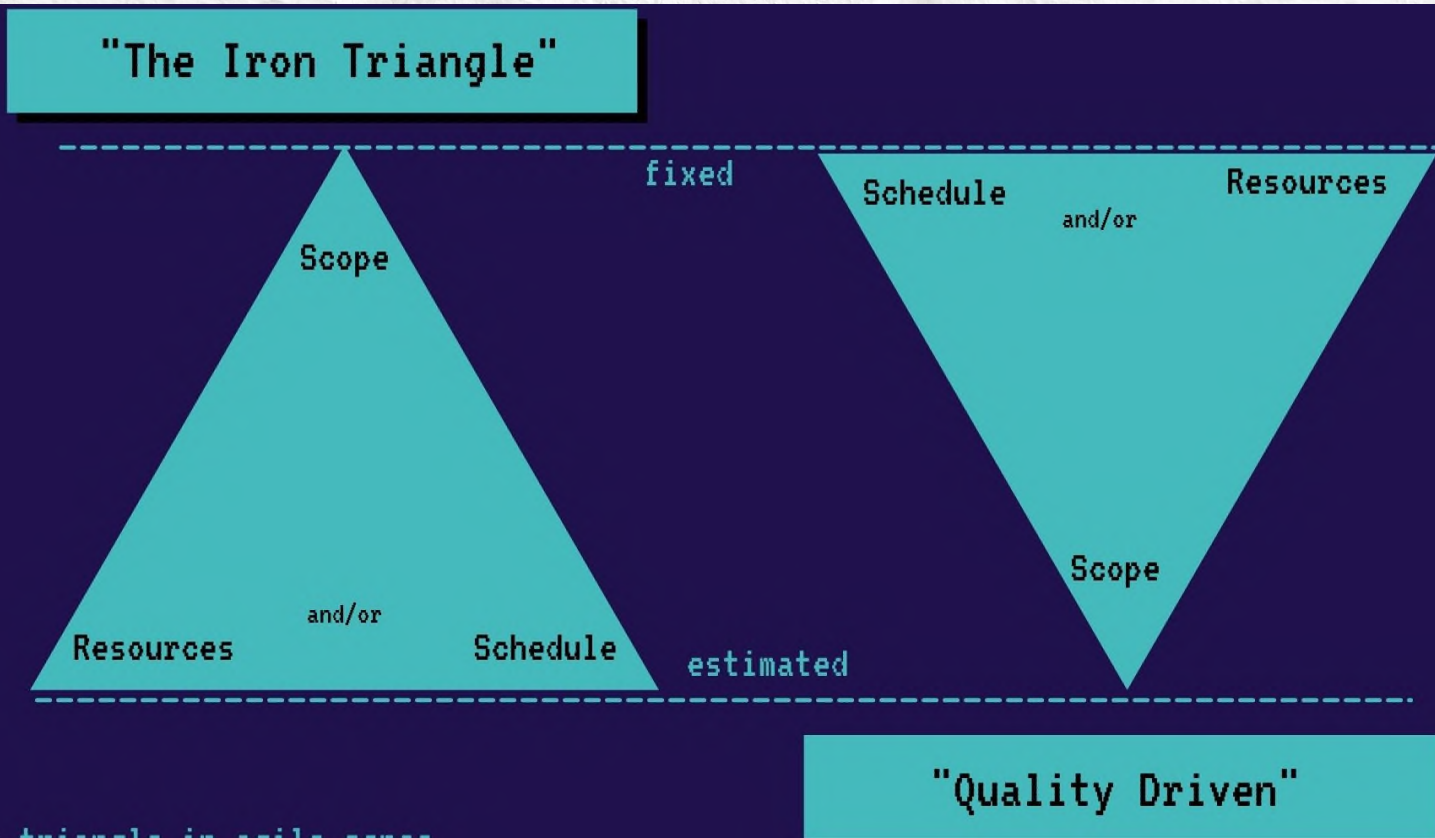
process through, managing the desirable or – as the case may be – undesirable effects, possible risks and problems, the results to be achieved and the embedding thereof in a structure and system require continuous participation, backtracking and feedback, i.e. iterative testing. In course of such testing, risk management, change management, strategic management and project management are closely related and interact with each other, therefore it is necessary to maintain an information and interactive link among the participants and owners of the processes, in order to ensure successful and effective project implementation.

The project management approach and tools already successfully applied in its activities by the SAO were complemented with an agile mindset at the organisational level.

The key point of the agile approach applied by the State Audit Office is accepting that since the project and the details of the project are complex, it is impossible to determine them completely in advance. Consequently, the content of the project may change even during the development process, therefore the possibility of change is built into the project.

Thereby it can be ensured that the product came into existence at the end of the project meets the requirements of the stakeholders, namely that the SAO produces products which the stakeholders are able to use. Of course, at the beginning of the project it is necessary to define a minimum output product, without of which the project cannot be considered finished.

No matter the project, mostly three factors affects all kinds of tasks. These are scope (what to do), schedule (until when) and resources (how much it costs).



Iron triangle in agile sence

To date, with a little exaggeration, every project progresses in this triangle and tries to balance and satisfy the needs. In traditional projects, the scope is typically defined first and when planning the answer is sought for the schedule and the resources required for the completion of the project. In contrast, agile trends consider the scope as the variable. This means that agile trends consider a specific schedule and/or budget fixed and try to achieve the highest (but still realistic) value by adhering to such frameworks.



International Activities

Forms of Value and Benefit

The SAO continuously develops its bilateral and multilateral relationships; it has been a member of the International Organisation of Supreme Audit Institutions (INTOSAI) since 1968. The SAO participates in the work of several subcommittees and working groups within the INTOSAI in order to ensure a more efficient knowledge transfer and collection of information.

Keeping in touch with partner SAIs is indispensable for the State Audit Office of Hungary, since as the sole supreme audit institution in the country and the supreme financial-economic audit organisation of the National Assembly, it can exchange experience and knowledge only with other supreme audit institutions to be able to perform its tasks arising from legislative authorisation more efficiently.

THE INTERNATIONAL ACTIVITY OF THE SAO - AT INTOSAI LEVEL



The international activities of the SAO and its membership and active participation in the INTOSAI and EUROSAI working groups contribute to the social utility of the State Audit Office.

The international relations and roles of the State Audit Office ensure two-way flow of knowledge, and the experiences gained and shared in this way are integrated into the audit work both at the domestic and international levels. The SAO also participates in cooperative audits, mainly on the topic of SDGs; in 2020 audit carried out in connection with plastic waste.



The year 2020 posed challenges to the organisations of the international community as well, as a result of COVID-19 spreading into a pandemic. The member states and their SAIs were affected by the pandemic to varying degrees, but it is also true that following swift adjustment to the changed circumstances, collaborations were relocated to the online space permanently, while also ensuring the high professional standards upheld before.

Peer Review as a toll for validation

The INTOSAI emphasises the role and importance of the institution of Peer Reviews as the most important capacity development tool in its Strategic Plan for 2017-2022 as well. During the planning period ending in 2022 the INTOSAI will continue to support and encourage Supreme Audit Institutions to undergo periodic Peer Reviews, which provide vital external validation of the quality assurance processes of the Supreme Audit Institutions.

The State Audit Institutions are individually responsible for assessing the necessary capacities in line with their own strategic objectives and for identifying the development needs thereof. Self-assessments, Peer Reviews and the Performance Measurement Framework (PMF) serve as tools for their implementation.

In line with international principles, a significant part of Supreme Audit Institutions strive to increase the transparency of their processes, ensure accountability, support their statutory duties - such as the protection of public property and good governance.

In line with the above, the SAO had therefore developed its own concept for Peer Review. The main purpose of the Peer Review concept and tool is to contribute to the above state audit institution endeavours by providing an overview of the current and desirable future condition of the area covered by the Peer Review. To this end, the SAO established a unique target system for Peer Review.

The SAO's Peer Review Concept elaborates the results and benefits to be expected from the Peer Review in relation to the revised area along the lines of this system of goals, in addition to the enforcement of the principle that in our organisation the Peer Review shall always be preceded by a recent self-assessment of the area concerned. Thus, the self-assessment carried out in the given area is also reviewed by the Peer Review, which therefore also serves to validate the self-assessment methodology and results, thereby contributing to the increase in performance.

By conducting Peer Review at our own state audit office and by participating in the Peer Reviews conducted at partner institutions, our organisation gains practical knowledge - know-how - that serves the development of the capacities of the SAO continuously and repeatedly.



IX. EUROSAI - OLACEFS

J O I N T C O N F E R E N C E

9-11 September 2020

Budapest, Hungary

BOOST your **IMPACT!**

EUROSAI-OLACEFS Conference

The SAO also carried out extensive international activities and organised several international conferences, workshops and seminars in 2020 as well. As a result of the state of epidemic emergency caused by the coronavirus, the organisation of international conferences was hindered, thus instead of meetings that require personal contact the focus moved on to other solutions. Due to the epidemic, international conferences were postponed and most of them are planned to be held consequent year. However, in case of a few conferences, only the venue was changed and the professional discussion was moved to the online space.

As a result, SAIs have the opportunity to take advantage of the opportunities offered by digitisation and to develop their renewal and self-learning skills.

The greatest and most significant event of 2020 was the IX EUROSAI-OLACEFS Joint Conference organised by the SAO of Hungary. The motto of the event was 'The COVID-19 pandemic: a unique opportunity for Supreme Audit Institutions to highlight the impact of their work', which choice of theme ensured the actuality and relevance of the conference, and thereby provided an interesting basis for in-depth, vivid discussions and value-creating professional debates and exchange of views.

One of the unambiguous conclusions of the conference was that throughout the COVID-19 epidemic the importance of the work of audit institutions continued to increase, and it became clear that audit institutions are only able to provide appropriate responses to the evolved situation with rapid reactions.

One of the key issues in tackling the COVID-19 epidemic is how to preserve the balance between protecting human life and ensuring the functioning of the economy, and relating to that, how SAIs can remain relevant. Under these circumstances, sharing knowledge among SAIs, enhancing adaptation skills, reactivity, change management and measuring the performance of SAIs are of increasing importance, therefore the cooperation between SAIs has to be taken to a new level.

For this reason the Conference proved to be a success as SAIs of the member countries participated in the online space and represented their ability to react quickly in such difficult times caused by the epidemic.

The State Audit Office is also destined to sustain its impact and for this reason an insight has been provided above into this challenging and never-ending journey both by means of international conferences and in the context of Annual Summary Report.

