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Auditing principles and methodology of the State Audit Office of Hungary

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1. Introduction

By means of its audits and recommendations, advisory opinions, advice and analyses based on its audit experience, the State Audit Office of Hungary (hereinafter: SAO), **as the supreme financial and economic audit body of the National Assembly, supports the lawful, expedient, economic, efficient and effective operation and financial management of organisations managing public funds and national assets** and audits the use of public finance grants. Through its activities, it contributes to improving the quality of the performance of state functions. By law, **the State Audit Office of Hungary[i] is responsible for the external audit of public finances**.

As the supreme audit institution, the aim of the SAO is to operate as an efficient organisation that bases **its supervisory-type of audits over public funds and national assets** on data and risk-based planning, using a set of tools offered by digitalisation, and to detect practices that are irregular or contrary to economic realities, thereby reducing the risk of irresponsible or inefficient financial management. In addition to fully carrying out its statutory audit engagements, the SAO focuses on issues of interest to a wide range of society and concerning sustainability aspects.

According to the Fundamental Law of Hungary, the SAO audits 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. Its auditing powers cover the use and utilisation of public funds and national assets.

The SAO sets its own professional audit rules and methods and makes such rules public. In developing its professional audit rules and methodology, it takes into account the Hungarian regulatory and operational environment, the **aspects of legality, expediency and effectiveness set out in the Fundamental Law**, the principles laid down in **the Act on the State Audit Office of Hungary** and other Hungarian **legislation** on **the management of public funds** and **national assets**. The audit criteria set out in the Fundamental Law and these audit principles and methodology are also consistent with those set out in the international auditing standards of Supreme Audit Institutions.

The SAO's audit principles and methodology are designed to contribute to the implementation of unbiased, objective, reliable and independent audits by providing a single and transparent set of criteria and ensure the transparency thereof for all stakeholders.

The present auditing principles and methodology apply to all audits carried out by the SAO and should be read in conjunction with the legislation, principles and other internal governance resources applicable to the operation of and performance of duties by the SAO.

2. Principles, criteria, requirements and conceptual framework for the management of public funds and national assets

According to the Fundamental Law, the central budget must be implemented in **a lawful and expedient manner, with the sound management of public funds and transparency**. **The principle of prudent financial management through due diligence** is reflected in the legislation. The Fundamental Law lays down the principles of legality, expediency and effectiveness. The implementation of the budget must be guided by the principles of **necessity** and **substantiation**. Entities 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.

The Fundamental Law and legislation on the management of public funds and national assets set out the principles, criteria and requirements along which these activities are required and expected to be carried out. These include the principles of **economy**, **efficiency**, the **requirement to use resources for their intended purpose and to the extent necessary** and **protecting them** against wastage, damage and misuse.

One of the most important legal requirements for the activities of budgetary entities, local governments and public enterprises is that they must **carry out their activities** in **an economical, efficient and effective manner** in the context of their operation and financial management.

In its audits, the SAO takes into account the definitions provided by legislation and, for concepts not defined in legislation, their meanings to be applied during audits are provided by the professional audit terms and their explanations included in the Appendix. These audit principles and methodology contain the definitions used in the SAO's audits and the requirements for organisations that may be or are audited by the SAO.

The principle of **transparency** is a requirement enabling public audit bodies and the general public to access all details of the budget All organisations that use public funds are **accountable to the public** for their financial management and properly **comply with their reporting and data provision obligations** required by legislation.

In its audits, the SAO understands the concept of "financial **management**" as meaning **all activities and decisions related to the responsible use of resources.**

The primary aim of budgetary management is not to make a profit, but rather to perform public duties. In order to ensure sustainable performance of public duties, when a public duty is prescribed or undertaken, it must be assessed whether the resources needed to perform that duty are available. The point of **prudent budgetary management** is that the state may only undertake as many public duties as budget revenues afford. The state is required to carry out compulsory public duties even if it is temporarily underfunded or if the available funds have to be reallocated to these duties.

Legality means the obligation to comply with the requirements of the Budget Act and other requirements applicable to public financial management. In this context, legality (regularity) in the SAO's audit means that the audited entities operate, manage their funds and perform their statutory duties in a lawful and compliant manner, in compliance with legal requirements and their internal rules and regulations in line with those requirements. The SAO's legality audits also focus on the verification of numerical adequacy, which involves checking the consistency between the data in the accounts and other financial data (invoices, authorisations, payment allocations).

The requirement of **expediency** means that revenues shall be used to achieve the public-service task and expenditure shall be incurred to the extent necessary for the proper performance of public duties in the interest of budgetary objectives, for a specific purpose (public-service task) and in a reasonable and rational manner. The **reasonable and rational use of resources** means conscious decision-making or the conscious use of resources in such a way as to take into account the potential advantages and disadvantages, be aware of the consequences, avoid excesses, seek consistency with its own actions, apply the right principles and be ready to self-correct in view of the right arguments. **Due diligence** means proceeding with due care, characterised by prudent caution and the assessment of the consequences and outcomes of decisions.

The principle of **effectiveness** refers to the achievement of previously set objectives and intended results (impact), meaning that the subject of the audit (activity, process, project, investment, IT system, etc.) or the audited organisation has achieved the set objectives and intended results (impact). The effectiveness of financial management and the performance of duties can be determined by comparing the achievement of the objectives set by the organisation and the intended results (impact) (comparing the actual and the intended results). When evaluating effectiveness and social impact, it is important to consider the timeframe over which the change takes place, so it can be interpreted in the short, medium, as well as long term.

The principle of **efficiency** refers to making the best of the resources available, represented by the relationship between the resources used and the results achieved in terms of quantity, quality and time. Efficiency is a measure of performance per unit of resource, taking into account quantitative and qualitative aspects as well as and the time factor .

In the context of efficiency, **wastage** is when the use of resources does not lead to the intended result. **Efficiency is low** when the ratio between the resources used and the results achieved is sub-optimal.

The principle of economy means minimising the cost of the resources used to achieve the results. The resources used must be available at the right time and place, in the right quantity and quality and at the best price. Cost minimisation does not imply the cheapest solution and expenses must always be considered in relation to the results actually achieved, taking into account quantitative and qualitative criteria and the time factor.

Squandering related to the principle of economy is the use of resources that are not necessary to produce the intended result (output). **Overpayment** is when the resources actually used are acquired at a cost that could have been lower. **Wastefulness** means paying for resources of better quality than needed to produce the intended result. Necessity, or **necessary measure,** means that the expenditure is made to the extent necessary for the proper performance of public duties.

The **substantiation** of the budget means that it is substantiated by calculations in accordance with the applicable methodology and, as regards expenditure and revenue, that they are linked to the public-service task and their occurrence on a regular or ad hoc basis is justified (under legal obligations and/or in the context of the use of assets).

The Public Finances Act **sets out** three **principal rules in the context of planning, financial management and reporting**. These indicate that:

- planning must ensure that revenues are economically **substantiated** and that **the amount of expenditure planned is reasonably required to perform the public duties** ("true and fair view" principle),
- financial management must ensure that the revenues and expenditures **are used for the purposes for which they are earmarked** (principle of appropriate use),
- reporting must ensure that **all revenues and expenditures** are accounted for in a way that is **comparable** between fiscal years in terms of their **total amount** (principle of transparency).

The purpose of controls in public is to ensure the **regular, economical, efficient and effective management of** public funds and national assets, as well as to ensure that **reporting and data provision obligations are properly met**.

The **internal control system** is designed to ensure that the organisation conducts its activities in a proper, economical, efficient and effective manner in the context of its operation and financial management, meets its accounting obligations and protects its resources against wastage , damage and misuse. The internal control system goes beyond the issue of financial management and applies to each and every activity of the organisation. As a process system, it assists the head of the organisation in achieving the organisation's objectives and the head of the organisation is responsible for its design, operation and improvement. The **internal control system** operates according to the principles and includes the procedures and internal rules and regulations that ensure that all activities and objectives of the budgetary organisation are in conformity with the requirements of regularity, regulation, economy, efficiency and effectiveness and there is no waste, abuse or misuse in the financial management of assets and funds.

With regard to **substantiation**, the legislation requires the head of the organisation of the budgetary entity or public enterprises to ensure that, as part of the **control activity**, controls are put in place for all activities to mitigate risks to the achievement of the organisation's objectives, including, in particular, the substantiation and substantiation assessment of decisions in terms of their expediency, economy, efficiency and effectiveness.

The requirement of **responsible and proper management of national assets** includes the efficient operation, protection thereof, the preservation and enhancement of their value and the promotion of the performance of state and public duties.

The SAO considers organisations managing public funds and national assets in a lawful, expedient and efficient manner to be organisations proceeding with **due diligence** or displaying good management.

3. Framework for SAO audits

The State Audit Office of Hungary has general powers to audit the financial management of public funds and national assets. Its audit mandate is wide-ranging, with a statutory mandate to audit all organisations managing public funds or receiving grants from such funds or use national assets for the purposes in the public interest and for community needs.

The SAO continuously reviews and develops its audit principles and methodologies and monitors the evolution of and changes in legislation and auditing standards.

3.1. Statutory mandate of the State Audit Office of Hungary

Under the Fundamental Law, the State Audit Office of Hungary is responsible for auditing the implementation of the central budget, the management of public finances, the use of public funds and the management of national assets in accordance with the criteria of **legality**, **expediency** and **effectiveness**. The SAO takes into account the criteria set out in the Fundamental Law for its audits in conjunction with one another in the context of each audit.

The responsibilities of the SAO are laid down in the Act on the State Audit Office of Hungary and other Acts. It carries out its audit engagements on the basis of an audit plan and its statutory mandate also enables it to perform audits not included in the audit plan, at the discretion of the President.

3.2. The purpose of SAO audits

Audits by the SAO are of particular importance in ensuring the transparent operation of the public sector. Its general objective is to raise awareness of compliant and proper conduct and the need to ensure that the use of public funds and national assets is substantiated, regular, prudent and economical as well as auditable and traceable. To ensure this, organisations managing public funds and national assets must have appropriate control mechanisms in place at all stages of use, reporting and accounting in order to protect resources against wastage, damage and misuse.

The **SAO's audits** are aimed at helping eliminate irregular or improper practices, supporting the legislator in its activities, promoting the responsible management and transparency of public funds and national assets and ensuring the lawful, expedient, economical, efficient and effective operation and financial management of all organisations managing national assets. They also aim to contribute to improving the quality of the performance of public functions and public duties.

4. Components of SAO audits

An audit by the State Audit Office of Hungary is a pre-planned process designed to obtain and objectively evaluate audit evidence to determine whether the information, data or activities subject to the audit satisfy the audit criteria applicable to the subject of the audit. Audit findings shall be based on a comparison of the facts established on the basis of the audit procedures conducted and the criteria set out in the audit programme.

The SAO's audits focus on relevant aspects and risk areas. In order to select the subject of the audit and the scope of auditees, it identifies and assesses areas, topics, processes with the highest risk and relevant aspects for which it intends to audit the rules and requirements. An essential requirement related to its work is that its results, findings, conclusions and recommendations are substantiated and reliable; furthermore, that the audits are carried out in a way as to meet the criteria of economy, efficiency and effectiveness. Compliance with these requirements is ensured cumulatively by the components of the SAO's audits.

4.1. Audit risks

4.1.1. Risk analysis underpinning audits

The State Audit Office of Hungary carries out a risk analysis to identify audit topics and areas and audited entities and define the scope and focus of the audit. Taking into account the audit criteria, the scope of the audit and the characteristics of the audited entity, it uses risk assessment procedures to analyse risks in order to determine the nature, timing and scope of the audit procedures to be conducted.

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 organizations.

4.1.2. Identifying audit risks

Audit risk is the risk that the auditor will make an incorrect finding or reach the wrong conclusion in the report. Its three components are inherent risk, risk from the internal governance and regulatory system (internal control system) and detection risk. Audit risk can be expressed as the multiple thereof:

$$\text{Audit risk} = \text{inherent risk} * \text{control risk} * \text{detection risk}$$

- **Inherent risk** is the risk in an organisation, concerning which the management cannot take any action to change either the likelihood or the impact (significance) of that risk, meaning the set of risks that objectively exist independently of control measures.

- **Control risk** is the risk that the internal control system of the audited entity (organisation, activity, project) fails to prevent or indicate and correct a material error, irregularity, weakness in operation and performance or misstatement.
- **Detection risk** is the risk that the auditor fails to detect or identify a material error, irregularity, weakness in operation and performance or misstatement that has not been rectified by the organisation's internal control system.

The auditor identifies and assesses inherent risks without considering the effects of related controls and determines whether an inherent risk can be considered significant. The auditor also needs to assess the design of controls relevant to the audit (in particular, with regard to significant inherent risks) and the likelihood of their practical application.

The nature of the identified risk may vary depending on the subject of the audit. The auditor must consider and assess any potential deficiencies, discrepancies or misstatements in the subject of the audit, the likelihood of their occurrence and the magnitude of their impact.

It is also necessary to consider the possibility that the subject of the audit does not meet the criteria. Non-compliance may be due to fraud, error and/or the circumstances of the audit. The identification of the resulting risks and their impact on audit procedures should be considered throughout the audit process. The auditor should assess cases of non-compliance identified during the audit to determine whether they are material or not.

The risk is characterised by the probability of occurrence and the significance of the occurred event or omission. The consequence of an event or omission involving the risk is an error in the general sense (e.g. incorrect information, irregularity, inadequate functioning, poor performance), the significance of which is characterised by its magnitude (value) and impact (consequences).

An acceptably low level of audit risk can be ensured by reducing the detection risk during the audit in order to obtain reasonable assurance to support the SAO's report or opinion as an audit can never provide an absolute level of assurance. In the course of the audit, the definition, identification and classification of risks as part of risk assessment contribute towards the achievement of the audit objectives and the efficient, effective and economical conduct of the audit.

4.1.3. Risk analysis system to support audits

In its risk analysis activities, the State Audit Office of Hungary relies on the processing of large amounts of data and modern data analytics techniques. The internal data analysis environment and register developed using the data on the scope and activities of audited entities, found in central registers and systems, accessible to the SAO, by applying digital solutions to support the planning and execution of audits, the substantiation of analyses and the operation of the risk analysis system. The SAO continuously monitors the economic events of the audited entities and analyses and assesses the risks identified. It monitors the financial processes, the financial stability of the audited entities, their budget planning, revenues and expenditures, asset management and financial reporting. The SAO carries out risk analyses and operates an objective risk analysis system by developing a system of indicators warning of risks.

The SAO uses whistleblowing reports and complaints in the planning and implementation of audits or in the context of individual risk analysis.

4.1.4. Risks identified during audits

The SAO monitors and, if necessary, reviews the risks identified during the implementation of audits and their potential impact from as early as the preparatory phase of the audit. The identified risks are taken into account when planning audit engagements and preparing the annual audit plan.

In the course of its audits, the State Audit Office of Hungary assesses the risks to compliance with the principles of legality, expediency, economy, efficiency and effectiveness.

In terms of **legality**, it represents a risk if the auditee fails to comply with or acts contrary to its obligations provided for by law or in internal regulations.

With regard to the requirement of **expediency**, it may pose a risk if expenditure is not made for the performance of public duties, funds are not used for the achievement of the budgetary objectives or for the intended purpose (to perform a specific public duty) or to the necessary measure and the way in which they are used is not reasonable.

The SAO also pays particular attention to identifying risks concerning the **economical, efficient** and **effective** use of funds.

- In terms of **economy**, cases of squandering, overpayment and wastefulness may represent risks.
- In terms of **efficiency**, risks may involve wastage, low work efficiency, slow implementation of a project or insufficient assessment and monitoring of costs beyond the scope of the project or organisation, borne by individuals or organisations.
- With regard to **effectiveness**, risks can be posed by missing, unclear or contradictory objectives, inadequate intervention tools and measures, the impossibility of implementing objectives in practice, governance and management weaknesses within the organisation or a failure to prioritise the achievement of objectives or a failure to achieve the objectives set.

4.2. Subject of the audit

The subject of the audit is all the data, information or activities that the SAO's audit assesses on the basis of the relevant criteria. The subject of the audit must be clearly identifiable and capable of being consistently measured and evaluated against the defined criteria. A clear and precise definition of the objectives and criteria of the audit, the period under audit and the scope of the audit. The subject of the audit must be defined in such a way as to enable the SAO to obtain sufficient and appropriate audit evidence to support its findings and conclusions.

When selecting the audit subject, the State Audit Office of Hungary takes into account the legislator's activities and decisions, legal requirements, the activities of the audited entities, requests received through whistleblowing and other communication channels, and the risks identified in the course of its risk analysis activities. SAO must also take into account that the audit shall provide useful support and added value to the audited entity, thus leading to a more efficient use of public funds and an improvement in financial management and the performance of duties.

4.3. Scope and area of the audit

The scope of the audit provides for the audit procedures and methods to achieve the audit objectives, the focus, extent and delimitation of the audit, in addition to assessing, estimating and analysing materiality and risks. Where the applicable legislation does not set out the scope of the audit, the audit programme must specify the area(s) or the entity/entities/range of entities to be audited.

The scope of an audit may be limited by the characteristics of the auditee, circumstances beyond the control of the auditee or other events that prevent the auditor from obtaining sufficient audit evidence to substantiate its opinion. Any limitation in the scope of the audit resulting from internal intentions or external circumstances must be presented in the audit documentation and in the SAO's report.

4.4. Stakeholders in the audit

4.4.1. The auditor

Responsible management of public funds and national assets is ensured by the (external) audit by the SAO that is independent of the executive. The auditors are persons acting within the scope of responsibilities and powers of the SAO in decisive, auditing and supporting roles.

4.4.2. The responsible party

The responsible party is the entity or person who is requested to provide information for the purpose of carrying out the audit engagement, provides data to the SAO or is responsible by law for the activity relating to the subject of the audit (audited entity, organisation required to cooperate in the audit, persons designated as responsible or, in the case of the right to comment, the person whose personal responsibility has been established and the addressees of recommendations or the opinion).

4.4.3. Intended users of audit results

The intended users of audit results are the primary addressees of the audit report: heads of audited entities, the National Assembly and its committees, the Government, public sector organisations, the parties concerned by the findings of the report and the public.

4.4.4. Contact with the responsible party

The State Audit Office of Hungary considers responsible parties as partners in its activities and establishes and maintains efficient communication with them. Through two-way communication, the State Audit Office of Hungary must request all data and information necessary to conduct the audit from the responsible party, who, at the same time, must be informed about the purpose, subject, criteria and process of the audit, and be given the opportunity to comment on audit findings and conclusions. The responsible party must also be informed of the means of contact used during the audit.

The State Audit Office of Hungary may notify the management of the responsible party about material errors identified during the audit process and if the relevant conditions are met, request corrective measures or provide information on their impact on the SAO's report.

4.5. Audit criteria

Audit criteria are benchmarks and points of reference used to assess the subject of the audit. They set out the expectations related to the focus areas / questions of the audit and the associated framework for gathering audit evidence and provide a basis for evaluating the evidence, developing audit findings and drawing conclusions related to the audit objectives and provide a structure for the audit. The SAO must carry out its audits on the basis of the criteria set out in the audit programme, in line with the objectives of the relevant audit.

Audit criteria can be qualitative or quantitative (quantifiable), and general or specific. They can be defined in pieces of legislation, public law instruments regulating organisations, standards, principles, expediency aspects, measures, indicators, benchmarks or good practices.

In any case, the audit criteria must meet the following requirements:

- **objectivity**: the conclusions drawn on the basis of the criteria are impartial and factual;
- **clarity**: the criteria are clearly formulated, non-overlapping evaluation criteria describing the characteristics of the organisation, activity or process in question, interpreted in the audit programme;
- **relevance**: overall criteria pointing out factors relevant to the audit, covering all audit areas/issues, and potentially affecting the findings and conclusions;
- **verifiability**: the person performing the audit is able to carry out the assessments set out in the audit programme based on the data, documents and information available for the audit and formulate findings on that basis;
- **support the economical implementation of the audit**: the collection and interpretation of data and information necessary for the assessment should not require a disproportionate effort from the person performing the audit in relation to the results.

In defining the audit criteria, the auditor considers their relevance, completeness, reliability, comparability, availability, understandability, and the purpose and type of the audit. The criteria must be made available to the intended users, thus ensuring that they understand the findings of the audit and the assessment of the subject of the audit.

4.6. Audit evidence

Audit evidence includes the facts, data, information and documents obtained during the audit, on which audit findings, conclusions and opinions are based. Evidence is expected to be obtained at a reasonable cost.

In order to support the findings and conclusions in the audit report, and the audit opinion, the auditor must, in accordance with the audit programme and the type of audit, perform procedures to be able to obtain sufficient, relevant and reliable evidence, taking into account the need to carry out an economical audit.

- Evidence is **sufficient** if its amount is satisfactory, meaning that it covers an adequate range and volume of data and information at a specific level of audit assurance to substantiate the conclusions drawn and enable the forming of an audit opinion. The amount of audit evidence needed to substantiate the conclusions also depends on the estimated level of risk of misstatement and the quality of the audit evidence.
- Audit evidence is of **sufficient** quality if it is relevant and reliable.
  - Information is **relevant** if it refers to issues related to the purpose of the audit.
  - Audit evidence is **reliable** if it can be considered objective in view of its source and nature.
- Applied procedures are **economical** if the cost of collecting information is proportionate to the intended result.

In order to enable the State Audit Office of Hungary to carry out its audit engagements properly, it has the statutory mandate to access the information, data and documents necessary to perform audits, i.e. audit evidence. The evidence necessary to answer audit questions is obtained on the basis of the data available to the SAO and accessible in public and other registers, documents and data provided by the auditee and the organisation(s) supporting the audit and through observation, visit (visual inspection), posing questions (request for information) and analytical procedures.

After obtaining the audit evidence, the auditor must evaluate that evidence on the basis of its sources, nature, and the relevance and reliability of the information. If pieces of evidence on relevant issues obtained from different sources contradict each other, it is necessary to obtain further evidence to resolve such contradictions. The auditor's assessment of the evidence must be objective, fair and balanced.

The assessment of the reliability and probative value of evidence depends on the specific circumstances of each audit. Based on the nature of the evidence, the following general criteria guide the assessment:

Reliability

- Audit evidence from external sources (e.g. third-party confirmation) is more reliable than evidence obtained from the audited entity's records;
- Evidence from the audited entity's records is more reliable if the related internal controls are effective;
- Evidence gathered directly by the auditor is more reliable than data or information obtained or provided by the audited entity;
- Audit evidence contained in documents and written statements is more reliable than oral statements;
- Hard copies are less reliable evidence than the originals, so their sources must be indicated on such copies and, they must be properly authenticated as soon as possible;
- Audit evidence accepted (not challenged) by the audited entity is more reliable.

Probative value for the audit purposes

- The original document (hard copy or electronically authenticated) and the joint written record taken by the parties of their views have full probative value for audit purposes, provided that the appropriate formalities are followed.
- A unilateral record or unilateral statement by the responsible party is not considered to have full probative value conclusive for audit purposes. The former's probative value can be increased by corroboration by witnesses. The latter can be revoked and changed, so its veracity must be substantiated by evidence during the audit.

4.7. Assurance

Audit assurance (which is inversely proportional to audit risk) is an indicator of the correctness, substantiation and reliability of the findings, conclusions, proposals, recommendations and opinions formed on the basis of the audit. The higher the level of audit assurance, the lower the level of audit risk is. **Reasonable assurance** means that, in the opinion of the auditor, the subject meets or fails to meet the set criteria in all material respects; **limited assurance** means that the auditor has not become aware of anything that would be a reason to assume that the subject does not meet the criteria.

The following audit procedures ensure that assurance is obtained:

- use of analytical procedures,
- verification and testing of the functioning of the internal control system (which provides information on whether the control activities are suitable to prevent, detect and correct errors),
- testing and verification of samples,
- use of the results of other audits (through analytical procedures or testing).

During each audit, the auditor must seek to achieve a reasonably high level of audit **assurance** and reduce the audit risk to an acceptably low level.

4.8. Materiality

Materiality is the expression of the relative importance or relevance of a particular issue (matter, assertion, information, data) in the context of the objectives of the audit. Information or data that, once known, is likely to influence the decisions of the intended users of the audit results is considered relevant. Materiality depends on the value (amount, quantitative aspects) of the information and data provided, the type (nature) of the information provided or missing, and its context (circumstances of its occurrence, qualitative aspects).

During the audit process, materiality can be assessed based on the following three criteria:

Materiality by amount or value is the amount of errors, false and misleading information or lack of information estimated by the auditor (in terms of value) that significantly affects the users' opinions and decisions, regardless of the nature of the errors or omissions. Materiality by value may be expressed directly by determining its amount or indirectly as a percentage of a typical overall figure for the activity being audited. The indicator of materiality by value is the materiality level or materiality threshold.

In the case of **materiality by nature**, as opposed to materiality by value, qualitative criteria are decisive. On the one hand, materiality by nature concerns "sensitive" areas or issues (even involving the activities of several organisations) which attract increased interest at the level of the National Assembly or from society in general, regardless of the magnitude of the values involved. These can be certain macroeconomic processes, often of a social nature, new challenges (e.g. the functioning of large community benefit systems or, in an even broader context, factors related to fiscal discipline, transparency and the evolution of equilibrium). On the other hand, the issue of materiality by nature may also arise in relation to the level of interest in the activities, operations and results of a particular organisation (this includes transactions related to the activities, financial management and possibly the budgetary accounts/financial reports of economically significant organisations, e.g. serious irregularities, obvious wastefulness).

Materiality by context expresses that an error, incorrect information, irregularity, poor performance may also be important due to the circumstances or context in which it occurred, even if it is not material by value or nature. An error can affect the assessment of the achievement of objectives by the auditee, for example, by raising revenues or costs for certain activities above a specific threshold, turning profit into wastage or changing a trend reflected by several years of reports and information.

Materiality criteria influence decisions on the nature, timing and scope of audit procedures and the assessment of audit results.

4.9. Professional competencies and expertise

Professional competencies and experience are key values of the SAO's audit activity and the person carrying out the audit must have the professional competencies and experience necessary to properly perform that engagement. The SAO's audit engagements may be carried out by auditors and contracted external experts who have the necessary professional qualifications, skills and competences to perform audits and comply with the conflict of interest rules laid down by law and other internal rules and regulations. The provisions on the liability, rights and obligations of the auditor carrying out the audit and the rules of the audit also apply to external experts.

4.10. Professional judgement, due care and scepticism

When planning and carrying out audits, auditors must maintain professional scepticism and be able to use their professional judgement to form an objective, correct and independent professional opinion. Professional scepticism requires the auditor to consider the evidence obtained during the audit with the necessary caution and due care, but also with an open mind to professional arguments, throughout the process.

The auditor's due professional care means that the audit is carried out in accordance with professional standards and procedures (including rules on the preparation of audit programmes and preliminary studies, auditing and reporting). The auditor must ensure due professional care which, in addition to professional detachment, must include proper processing of the data and evidence obtained, confidentiality and the careful planning and performance of the audit.

Professional opinion is based on the experience gained during the SAO's audit and the competencies and skills of the auditors. These principles, i.e. the professionalism, due care and attention of auditors, together form the basis for the professional responsibility of auditors and the soundness of the audit conducted and the substantiation of audit findings and opinions.

4.11. Using the work of others

The State Audit Office of Hungary may also make use of the findings of internal auditors employed by the responsible party or other external auditors auditing the responsible party if they contain information that is relevant or important for the audit and their use is necessary for the audit. This creates opportunities for coordination and cooperation and allows to prevent the duplication of certain tasks.

The SAO can only rely on the findings of internal and other external audits if the audited entity (activity or project) has been audited for a similar purpose and the auditor makes sure that the methods used are appropriate to the audit engagement to be carried out; the findings and conclusions are supported by sufficient and appropriate audit evidence; and the auditor or expert has appropriate professional and methodological expertise.

In such cases, the auditor cannot refrain from obtaining a thorough understanding of the relevant audit area and carrying out audit procedures for that purpose. When taking into account the findings of internal or other external auditors, the auditor must always make sure of their professional competence, expertise, independence and the quality of the audits carried out. First of all, the auditor must make sure that:

- the professional competence and expertise of the internal auditor or other external auditor was adequate;
- the internal auditor or other external auditor carried out their work independently and whether the document they produced is objective and unbiased;
- the audit methods are appropriate to the audit engagement to be carried out and whether the findings and conclusions are supported by sufficient, appropriate and clear audit evidence;
- the audit procedures carried out are in accordance with the standards applicable to SAO's audits;
- the results of audits carried out by other auditors can be used in a cost-effective way.

The results of other audits may be used at different stages of the audit:

- at the planning stage, reports produced by other auditors can provide information that highlight potential weaknesses in the control systems or other serious errors identified;
- they can provide some of the audit evidence deemed necessary to achieve the audit objectives, thereby reducing the amount of work the SAO has to perform;
- they can confirm the findings or conclusions of the SAO's audit or identify any differences of opinion; in the latter case, the auditor must investigate and clearly document the difference of opinion.

The use of the work of internal auditors or other external auditors during audit engagements does not relieve the auditor of their responsibility for the audit findings, conclusions and opinions.

4.12. Audit findings

Audit findings are the results of evaluations, assessments or measurements carried out against criteria applicable to the subject of the audit. The auditor assesses the discrepancies between the facts and the criteria and records the findings in line with the purpose and scope of the audit. Considering the objectives of the audit, independent professional assessment must be provided of the subject of the audit, including the underlying context affecting the established facts. Audit results, findings and conclusions must be clearly conveyed in the SAO's report and formulated objectively, ensuring comprehensibility as far as possible, professional manner.

4.13. Documenting the audit work

The SAO's audit process shall ensure full and detailed documentation. The purposes of documenting the audit work are:

- to facilitate the planning of the audit and substantiate its performance with evidence;
- to organise and preserve the evidence substantiating the findings, the conclusions, and the opinion;
- to support the supervision, review and quality assurance of audit work.

The audit must be carried out and substantiated with documents in such a way that the conclusions drawn serve as the basis for and substantiate the findings formulated in the SAO report and the audit opinion. In addition, the evidence and documents obtained during the audit help to substantiate that the auditor carried out the audit in accordance with the requirements set out in the professional rules. The documentation must be sufficiently detailed to enable another auditor without any prior knowledge of the audit, but with similar audit experience, to understand the nature, scope and results of the procedures performed, the evidence obtained to support the audit conclusions and recommendations, the reasoning behind significant issues requiring the exercise of professional judgment, and the related conclusions; that is, to enable another auditor with sufficient expertise to reach the same conclusion.

4.14. In-process quality assurance

In order to meet audit requirements, the State Audit Office of Hungary operates quality assurance throughout the audit process to ensure that the audit documentation meets the required quality standards, that audit findings, conclusions and recommendations are substantiated and documented and that SAO reports are of high professional quality.

In-process quality assurance is supported by the legal controls embedded in the processes, which covers all processes ranging from the analysis of the legal environment to the legal control of audit programmes and draft reports.

Within their own scope of responsibilities and competence, auditors are obliged to apply the principles of quality management as well as the requirements for prudent planning, implementation based thereon, controlling the implementation and making any corrections required on the basis of controls.

5. Audit process and methods

5.1. Audit planning

Planning of SAO's audit activities involves raising topics and preparing a proposal for the annual audit plan. On this basis, audit topic proposals are drawn up and the annual audit plan is prepared.

Verifiability is an important requirement during the planning process. When selecting the audit topic, it is necessary to determine whether the SAO's statutory mandate allows for the audit, consider the budgetary and social impact that can be achieved through the audit, the organisations that may be at risk, the likelihood of errors, irregularities and dysfunction and identify any international examples and links.

Each aspect of the audit requires a different approach to planning, typically based on legal standards or audit criteria appropriate to the purpose, subject and scope of the audit. Due to the special position of most of the entities audited by the State Audit Office of Hungary (non-profit organisations with a public-service task), the definition of performance criteria requires sound planning using specific performance criteria adapted to the activities of each organisation, usually based on non-financial indicators.

5.2. Audit preparations

Preparations for the audit involve the selection of the organisations proposed to be audited, using data-based risk analysis methods, preparation of a preliminary study or concept as the basis of the audit programme and the establishment of the audit programme. During the preparations for the audit, in addition to (preparatory) requests for data, it is also possible to conduct interviews with representatives and employees of the organisations concerned by the audit topic.

5.2.1. Audit programme

An audit programme must be prepared for all SAO audits. The audit programme defines both **the constituent elements of the audit engagement** and its organisational aspects.

The audit must be planned in such a way as to obtain sufficient and appropriate audit evidence to achieve the audit objectives, and to enable the SAO to prepare its report in a timely manner.

From an organisational perspective, the audit programme sets out the timing of the audit engagement, its human resources needs (including the use of external contractors) and the need to use other resources.

Audit programmes should be designed with a view to the prudent management of public funds and potential fiscal savings. Careful resource planning must also ensure that the right people with the right competencies carry out the audit within the professionally justified timeframe.

During the performance of the audit, it must also be possible to flexibly react to changes in circumstances and conditions, unforeseen events and circumstances concerning the audit engagements. To this end, the audit programme may be amended in the course of the audit.

5.3. Learning about the responsible party

When carrying out the SAO's audits, it is always necessary to clarify the roles and responsibilities of the parties involved in the audit. The conditions of the audit engagement, the duties and the responsibilities may be laid down by law. The auditor must be familiar with the external and internal regulatory environment applicable to the functioning, operation and financial management of the responsible party, including the relevant legislation, public law instruments regulating organisations (normative instructions, normative decisions) and other internal regulations of the organisation (which form part of the internal control system). The auditor must also be familiar with the financing scheme of the auditee, its activities, objectives, operations, its internal control systems and internal governance, financial, accounting and other systems relevant to the audit and any sources of audit evidence.

The auditor obtains the data and information necessary for the audit from the responsible party (with certain exceptions). In order to gain a broad understanding of the subject and context of the audit, the auditor may consult previous studies, reports and any legally available documents as well as the responsible party and external experts during the preparations for the audit.

5.4. Assessment of the internal control system

In assessing the internal control system, the auditor must consider whether internal controls are consistent with the control environment and ensure compliance with the applicable rules in all material aspects. Furthermore, the auditor assesses the risk that internal controls may not prevent or detect cases of material irregularity.

5.5. Identification and assessment of the risk of material errors and discrepancies due to fraud

In the context of the SAO's audits, **fraud** (going beyond its legal definition) is an intentional act involving deception used to obtain an unfair or illegal advantage. The auditor must identify and assess the risk of fraud and possible responses in relation to the subject of the audit. In conducting the audit, the auditor must maintain professional scepticism, openness and receptiveness to all views and arguments and exercise caution and vigilance when considering the possibility of fraud.

The very nature of fraud makes it particularly difficult to identify as the offender has an interest in concealing it. A combination of several risk factors is necessary for fraud to exist. To detect fraud, it may therefore be necessary to weigh the risks of opportunity, motivation/coercion, rationalisation or self-justification on a case-by-case basis.

- **Motivation** may include own monetary gain, meeting performance criteria or complying with the financing conditions of possible credit or loans.
- **Opportunity** involves comprehensive and in-depth professional knowledge, a high degree of familiarity with the system, and the confidence and opportunity that make it possible to commit fraud. In-depth knowledge of the bookkeeping system/software can also be an important risk factor.
- **Rationalisation** (self-justification) is the process whereby the offender seeks rational answers and convincing reasons to commit fraud.

The risk of offending is higher if the organisation's control environment and organisational culture do not include the expected ethical rules and anti-fraud policies, controls are inadequate or ineffective or there is a lack of commitment to these from management.

Where there is a risk of fraud, the auditor must carefully consider which audit procedures should be applied. In the case of suspected illegal practices or criminal offences resulting from fraud detected during the audit, the relevant legislation or internal procedures must be followed, including cases where the authorities must be notified.

5.6. Performance of audits

During the **performance of audits**, the same steps are followed for all types of audits: based on a comparison of criteria and documents, recording the facts found, substantiating the findings, drawing conclusions and, where appropriate, making recommendations and potentially initiating other procedures and measures.

The performance of audits involves the preparations made by the auditor, the implementation of the audit programme, the performance of the audit procedures set out in the programme, in accordance with the relevant laws, internal rules and regulations, guidelines and standards. Audits must be carried out in an economical, efficient and effective manner.

The SAO's audits start once the notification thereon has been served on the auditee. Notification may be omitted if it would jeopardise the effective performance of the audit.

In carrying out the audit, the auditor must obtain audit evidence to substantiate the findings of the SAO report and be aware of situations and economic events that may indicate infringements and have an impact on the results of the audit.

5.6.1. Audit procedures

Audit procedures include analytical procedures and the testing of selected samples.

As part of the **analytical procedures**, the auditor reviews the expected relationships of financial and other data and information with financial and other data and information and assesses the correlations between them. Analytical procedures also include the assessment, as necessary, of identified changes and correlations that are inconsistent with other relevant information or differ significantly from the expected data.

In analytical procedures, the auditor also assesses the reliability of the data to be used for the analysis, taking into account the source, comparability, nature and relevance of the information. Analytical procedures may – among others – cover the operational processes of the audited entity's internal control system and the comparison of the planned and actual data of its financial management with sectoral information.

Audits often involve the assessment of a set of information consisting of a large number of items (population) from a certain perspective. However, due to the resource-intensive nature of audit procedures, the audit of all items is typically not feasible or only possible at disproportionate cost.

In such cases, **sampling procedures** may be applied, considering either quantitative or qualitative criteria, meaning that SAO's audits typically do not cover all items in the data set for subject to the audit. **Sampling** is the application of audit procedures to less than 100% of the items within a population relevant to the audit, i.e. the selection of a subset of the population. The characteristics of sampling (e.g. procedure used, sample size) have a decisive influence on the risks identified at the audited entity. Sampling procedures may include testing the operation of the internal control system or assessing economic events and record entries based on the criteria of legality, expediency or effectiveness.

Sampling risk is the risk that the conclusion drawn by the auditor may differ from the conclusion that would be drawn if the audit were performed on the entire population. Sampling risks include the risk of incorrect acceptance (the risk that the auditor considers that a material misstatement exists when in fact it does not) and the risk of incorrect rejection (the risk that the auditor considers that a material misstatement does not exist when in fact it does).

5.6.2. Drawing conclusions

The auditor bases the findings on professional judgement, comparing audit evidence and criteria for each audit focus area and sub-area or focus question and sub-question. When preparing the report, the auditor must consider quantitative and qualitative criteria to assess the evidence obtained and use it as a basis for findings and conclusions.

Assessments must be carried out according to uniform principles and assessment methods. The auditor must also assess whether the evidence obtained is sufficient and appropriate to reduce the audit risk to an acceptably low level.

If audit evidence obtained from one source conflicts with evidence obtained from another source or if there is any doubt about the reliability of the information to be used as evidence, the auditor must determine the reason for the conflict, seek to clarify it and consider the potential implications for other aspects of the audit.

Before drawing conclusions, the auditor, in the light of the evidence obtained and evaluated, reviews the risk analysis prepared during the preparatory phase of the audit and assesses, in terms of materiality, whether further audit procedures are necessary and whether the audit programme should be amended. The auditor then reviews the audit documentation to ensure that the audit programme was properly and comprehensively implemented, summarises the results of the assessment of the audit evidence and draws and records the conclusions.

The conclusion must be objective, easily comprehensible, clear and free of uncertainties. Conclusions can also take the form of more detailed answers to specific audit questions.

5.6.3. Detection of criminal offences, alerting the competent authorities

If a person participating in SAO's audit detects the suspicion of a criminal offence, misuse or wasteful use or the threat thereof, or damage caused by the audited organisation in serious breach of the rules governing the management of funds, or the risk thereof, or failure or delay in complying with the audited entity's obligation to cooperate, this person must proceed as provided for in the Act on the State Audit Office of Hungary and the internal rules and regulations.

If the SAO's audit reveals a suspected criminal offence, the findings must be communicated to the competent authorities without delay. In case of other unlawful acts, the clarification and enforcement of liability can be initiated. The requested organisation must inform the SAO of its position concerning the initiation of the proceedings.

5.7. Reporting, utilisation and follow-up

The State Audit Office of Hungary prepares and, as a general rule, publishes reports on the audits it carries out, with the exception of advisory audits. The law may limit the publication of reports to protect classified information. The audit report contains the established facts and the findings and conclusions based on them.

5.7.1. Preparing the report

The auditor conducting the audit must record and assess the audit facts, findings and conclusions and make the **auditor's report** available to the audit manager in the timeframe and manner specified in the audit programme. The purpose of the auditor's report is to answer the audit questions set out for the auditor in the audit programme and document the implementation of audit engagements and the results of the audit performed.

Based on an objective assessment of the subject of the audit, it should fully cover the focus areas/sub-areas identified in the audit programme or provide a clear answer to the relevant focus questions in the audit programme or an explanation as to why this was not possible. Completeness means that the auditor's report should contain a summary of all material facts that were established during the audit and are related to the audit objectives.

Based on the findings recorded by the auditors and the documents available, the audit manager prepares **a draft audit report** summarising the audit findings. The content of the audit report depends on legal requirements, the audit engagement, the type of audit, the principles applied and the needs of the intended users. Legislation may provide requirements on the content and form of reports; otherwise, the SAO determines the content and form of the reports according to its own methodology and professional judgement.

If the audit reveals a serious error or deficiency requiring immediate action, the resolution of which cannot wait until the approval of the SAO's report containing the results of the audit (the unlawful situation must be rectified immediately and any resulting damage must be prevented), the SAO may send a **call for action** to the head of the audited entity, unless the law provides for the application of more severe legal consequences. The head of the audited entity (in the case of board management, the board) must review the call for action, take appropriate action and inform the President of the SAO.

The SAO sends its audit findings to the head of the audited entity or the person entrusted thereby and to the person whose personal responsibility has been established, for **comments**. The established facts and the findings and conclusions based on them may also be discussed with the head of the audited entity or the person entrusted in the form of a closing discussion. The responsible party's comments must be analysed and considered, with accepted comments included in the audit report, and disregarded comments indicated in the report with the reasons for their rejection.

When preparing the **audit report**, the audit programme must be used as a basis for presenting the subject of the audit engagement and the audit criteria. The results of the measurement of data and information against criteria must be summarised and presented in the form of findings, conclusions, recommendations or opinions. In addition to the required content, the report must also describe the procedures through which the objectives of the audit were achieved. The report may also include additional information on the audit criteria, the methodology used and the sources of data. In any case, the audit report must contain revised findings, conclusions and recommendations agreed and reviewed in accordance with the procedures provided by the internal rules and regulations of the State Audit Office of Hungary.

The content of the audit report must be consistent with the audit programme, achieve the audit objective and provide a comprehensive and clear answer to the questions formulated as the objectives.

- The **principle of completeness** requires that all relevant audit evidence be considered before the report is published.

- The **principle of objectivity** provides for due professional care to ensure that the findings in the report are factually correct, and the report presents the results or conclusions in a relevant and balanced manner.
- The **principle of timeliness** refers to the timely preparation of the report.
- The **principle of the right to comment** requires that the accuracy of the facts be agreed with the audited entity and any rejected comments by the audited entity are included in the audit report with reasons given.

The audit report must provide **convincing** answers to the audit questions or address the main focus areas of the audit (or explain why it was not possible to provide answers) and have a logical structure. For the audit report to be convincing, the audit findings must be formulated in a way to ensure that the audit objective, the audit questions or the main focus areas, the findings, conclusions and recommendations are consistent.

The audit report must provide precise answers to all relevant questions. **Precision** requires that the report presents the audit evidence, an independent and objective assessment, information on the audited entity (activity, project), including the underlying context affecting the established facts, and gives an accurate picture of the audit findings and conclusions. If any irregularities are found, the report must contain precise legal references to support it and may only include proposals that are properly substantiated by the findings and conclusions. Precision provides assurance to intended users that the data in the report are credible and reliable.

The report must be **clear**, unambiguous, concise and professional and highlight areas for improvement in a supportive way.

Balance means that the content and tone of the audit report must be impartial. Additionally, the report must present all audit evidence in an unbiased manner. The audit report must present the findings in proportion to their weight and importance.

5.7.2. Utilisation and follow-up of audit reports

The State Audit Office of Hungary ensures that the report is communicated to the intended users and follows up on the actions taken in relation to the findings contained in the report.

The utilisation of the SAO's audits is first and foremost expressed by the fact that the findings, conclusions, proposals and opinions contained in the reports support the National Assembly in adopting the budget bill and performing its legislative and audit functions and contribute to the effective performance of the duties of audited entities. The SAO's audits also directly or indirectly affect the activities of audited entities, contributing to the prevention and elimination of errors and deficiencies, the more efficient performance of activities and duties.

The State Audit Office of Hungary ensures compliance with the principle of transparency through publicity and by drafting its reports in an easily comprehensible way. Public reports, professional publications, papers and recommendations are available on its website. The purpose of the publication of audit reports is to provide recognised, high-quality and sought-after sources of information. Effective communication is needed to convey the results of the SAO's audits and to disseminate its findings and messages among intended users.

Based on the audit results, the State Audit Office of Hungary may make **recommendations** to the responsible party. The head of the audited entity is required to prepare an **action plan** in response to the findings of the report and submit it to the SAO.

The **follow-up** on the audit report includes the assessment and response to the action plan and to the call for action submitted by the audited entity. For audits, the positive changes resulting from the actions taken by audited entities ultimately demonstrate that audits were useful and resulted in added value.

The implementation of the action plan related to the findings in audit reports may be assessed by the State Audit Office of Hungary in the framework of a follow-up audit.

6. Types of audits and their characteristics

The SAO carries out **combined audits**, **systems audits**, **legality audits** and – as part of its advisory activity – **advisory audits**.

6.1. Combined audits

Combined audits are audits carried out by the SAO using any combination of the criteria of legality, expediency and effectiveness, as laid down in the Fundamental Law for audits by the SAO. Depending on the subject of the audit, it is necessary to consider which aspect of the audit is considered more relevant to the audit topic. Combined audits do not require all three aspects to be applied simultaneously.

In combined audits, **from the aspect of legality** the SAO examines whether the resources in the audited area or entity have been managed in accordance with the law and other regulations on the management of public funds and whether the resources have been managed within the budget framework audit of regularity of spending).

From the **aspect of expediency**, the SAO examines whether the means, public funds and resources used meet the intended objective and whether they have been used in a reasonable and rational manner to achieve the objective set (performance of public duties). In this case, it is necessary to examine the decisions taken in relation to the objective(s) set.

From the aspect of **effectiveness,** audit is an assessment of whether the intended results have been achieved, whether the set objective has been met.

- If the objectives to be achieved have not been set, a finding may be made on the facts established, where appropriate on the basis of effectiveness criteria defined by the SAO. The other option is to focus on the audit efficiency or economy.
- If the objectives have been set, but no indicators or criteria suitable for assessing effectiveness are linked to the objectives set, the SAO can assess effectiveness based on an analytical, fact-finding and situation assessment process adapted to the specific characteristics of the area or subject audited, in order to compare the facts established with the planned and set objectives.

The intersection of effectiveness and expediency includes **efficiency and economy** requirements for the performance of public sector organisations. In terms of **efficiency** requirements, the SAO's audit examines whether the objective has been achieved with the least possible input, whether the resources and outputs are in the best possible proportion, whether the results have been produced in a cost-effective way, or whether there are bottlenecks or unnecessary overlaps that can be avoided. In the case of efficiency audits, benchmarks are also used to evaluate the subject of the audit. When examining **economy** aspects, the audit focus is on examining the possibilities for reducing costs. The audit of **internal control systems** examines whether management monitors cost trends and compares them with the costs of other alternative options.

6.2. Systems audits

Systems audits focus on systems, broad areas, sectors (measures, activities, programmes) where the audit by the SAO can add value for citizens and where there is the greatest potential for improvement. Systems audits focus on effectiveness, economy and efficiency. Systems audits should be based on actual performance information and data, in order to understand the factual situation and to focus the audit work on the most risky areas.

For system audits, it is possible to take a system-oriented, result-oriented or problem-oriented approach.

- A **system-oriented** (or system-based) approach is used when examining the proper functioning of governance and regulatory systems, such as financial management systems. The purpose of systems audits is to determine whether appropriate measures and procedures are in place to ensure that resources are obtained economically, used efficiently, and achieve the set objectives and intended effects. Audits focus on the elements, tools and procedures of internal control systems that play a crucial role in ensuring good performance. As a result of the audit, an assessment of the adequacy of controls is made (i.e. whether they are capable of keeping risks at the intended level) and whether they operated satisfactorily in the audited period.
- The **result-oriented** approach assesses whether outcome or output objectives have been achieved as intended, and whether programmes and services are operating as intended. The auditors consider or measure **effectiveness** by comparing the intended and the achieved results and output. This approach is most easily applied when the intended results or outputs are clearly articulated (e.g. in law or in a strategy defined by the responsible parties). The effectiveness aspect can be complemented by an assessment of **efficiency** and **economy**.
- The **problem-oriented** approach examines, verifies and analyses the causes of particular problems or deviations from criteria. The audit aims to identify problems related to performance and to determine the causes thereof. Taking into account the risks most threatening the economy, efficiency and effectiveness of the audited area's operations, the auditors set up hypotheses about the possible causes and consequences of the problems identified and the audit aims to examine these.

In systems audits, the SAO examines, by understanding the legislative intent without questioning it, whether the interventions of decision-makers have resulted in the objectives they intended to achieve in an economic and efficient manner, and whether there are weaknesses in the legislation or in the way it is implemented which prevent the objectives from being achieved. The results of the audit will highlight opportunities, directions and possible ways to improve the actions of decision-makers. Where possible, quantified results will also be presented to help those responsible for management and supervision to improve performance. Such audits enable the formulation of constructive, systemic recommendations to decision-makers aimed at improving performance, and provide the National Assembly with an independent opinion on the management and regulatory (internal control) systems applied by the audited activities, programmes and entities. Systems audits provide constructive incentives for the responsible parties to take appropriate measures (e.g. to improve the quality of public services, reduce costs, expand or reduce access thereto, build and promote performance-based budgetary management).

Systems audits provide an opportunity to examine the application of the **value for money** principle, i.e. to find out whether the audited activity ensures that taxpayers receive a usable, good quality product or public service and that they receive benefits commensurate with their payments. The economy, efficiency and/or effectiveness of a specific activity, process, project, investment, IT system, etc. can be audited in this way, focusing on a well-defined area determined on the basis of a preliminary situation assessment.

There are few areas where there is a direct measure of the value for money principle in the public sector, in the use of public funds, so specific evaluation criteria should be defined, taking into account the specific audit topic. Close cooperation with audited entities can play a key role in this.

Systems audits can examine the achievement of the objectives set, comparing actual and intended results (effects) **from the aspect of effectiveness**. **From the aspect of efficiency**, they can examine whether the best possible performance has been achieved with the given resources, taking into account quantitative, qualitative and time factors, e.g. whether the results have been produced cost-effectively or whether there are bottlenecks or unnecessary overlaps that can be avoided, and **provide an assessment of** the audited area **against benchmarks**. **From the aspect of economy**, systems audits can examine whether the entity has chosen the most appropriate and least costly resources to achieve the objectives, whether it has kept the costs associated with achieving the objectives low, e.g. whether it has acquired the right type, quality and quantity of resources at minimum cost, whether it manages its resources with a view to minimising overall expenditure, or whether it is possible to achieve the objectives in other ways, at a lower cost.

The objective of a systems audit may be to assess the adequacy and functioning of **the internal control system** covering the entire process of decision-makers' interventions, in the context of the extent to which any inefficiencies can be attributed to the absence or inadequate functioning of controls.

In a systems audit, an audit of the internal control system may cover the following:

- whether the effectiveness of the internal control system, its establishment and operation can ensure the targeted control of processes in the areas of operation, whether it can adequately support the effective performance of the tasks and financial management tasks defined as the objectives of operation;
- whether the management of the audited entities monitors cost trends, whether controls are in place to ensure that costs are favourable compared to the costs of other alternative options; and
- whether the controls over the planning and use of the (budgetary) resources referred to financial management have helped to ensure the economy and efficiency of the impact of the decision-makers' interventions.

6.3. Legality audits

Legality audits are carried out in cases where the law defines the audit tasks to be performed by the SAO and the scope of its audit, limiting the audit criteria **to the legality aspect** only (e.g. audits of the final accounts of the implementation of the central budget, audits of the financial management of political parties, audits of the implementation of state tasks related to the preparation and conduct of elections, and audits of the use of funds provided from the central budget for other costs related to the activities of electoral bodies). The SAO carries out these audits only in accordance with the criteria laid down by law.

The purpose of the legality audit, unless the scope of the SAO's audit is defined by law, is to establish whether the audited area or entity has operated, managed its funds or performed its duties in a lawful and compliant manner, in compliance with the legal requirements and other requirements on the management of public funds and public assets, as well as the provisions of internal rules and regulations in line with those.

The legality audit covers the verification of compliance with specific audit criteria, such as the legal requirements, the provisions of internal rules and regulations in line with the legal requirements and other requirements for the management of public funds and public assets, including compliance with budget-related legislation. In defining the criteria, it is necessary to use the requirements that are specifically related to the subject of the audit.

The materiality of certain (typically qualitative) aspects should also be assessed in the planning of the legality audit, the evaluation of its results and the preparation of the audit report. By their nature or context, any data, information or set of data may be considered material.

Financial audits are also considered to be legality audits when the SAO audits financial statements (annual accounts and report on budgetary / financial management). The objective of this audit is to determine whether the information presented in the audited entity's financial statements is presented truly and fairly and in accordance with the legal requirements, the financial reporting and regulatory framework applicable.

In carrying out a legality audit of the financial statements, the auditor determines whether the information in the financial statements of the audited entity is presented truly and fairly, free from material misstatement, whether due to fraud or error, and whether the financial statements comply with applicable financial reporting and regulatory frameworks and legal requirements for the management of public funds.

The subject matter of the audit is the accounting and other related information of the audited entity, which is typically presented in the form of financial statements (the latter known as the subject matter information). The audit criteria for the financial statements are generally based on the financial reporting framework used by the responsible party to prepare the financial statements.

During a financial audit, the party providing the data presents information or management assertions in relation to the subject of the audit against predefined criteria. The audit focuses on the validity of information and assertions related to the subject. During the audit, the auditor obtains sufficient appropriate audit evidence to make findings, to draw conclusions and to provide a basis for the opinion. Based on audit evidence, the auditor expresses its opinion on the financial statements in writing.

The auditor may assess whether the information has been presented truly and fairly (**true and fair presentation** framework) and the extent to which compliance has been achieved (**compliance** framework). In this respect, the audit report provides reasonable assurance to users. Given that reasonable assurance is a high but not absolute level of assurance, which means it is not a guarantee that the audit will detect all cases of material misstatement. .

In planning a financial audit, the auditor should obtain sufficient knowledge of the audited entity, its operating environment, the applicable laws, the financial reporting framework and the entity's internal control system to identify and estimate the risks of material misstatements.

When planning an audit, it is necessary to determine what is the limit of the amount of errors that is tolerable. This amount represents the materiality level (threshold) by value. The presentation of any fact or data containing a material error may call into question the authenticity of the document containing the information relating to the subject of the audit. In detecting and estimating the risks of material misstatements (which may be material in terms of amount, nature or context), inherent risk and control risk should be considered.

The overall level of **materiality** should be determined for the **financial statements taken as a whole**, taking into account the level of misstatements that could influence the judgments of users of the financial statements. The concept of materiality should be applied by the auditor in both a quantitative (by amount) and, where relevant, qualitative (by nature) aspect when planning a financial audit. The determination of the materiality level is based on the professional judgement of the State Audit Office of Hungary, taking into account the legal requirements, the expectations of the intended users and their information needs. Based on the knowledge gained during the preparation of the audit, materiality should be estimated and taken into account throughout the audit process.

In addition to the **overall** materiality threshold, **a specific materiality threshold** may be set for sensitive items (specific class of transactions, account balance or disclosure). For these items, it is reasonably expected that misstatements of an amount less than materiality for the financial statements taken as a whole could affect the judgments of the intended users based on the financial statements. Setting a specific materiality threshold does not change the general (overall) materiality level.

In planning an audit, it is necessary to determine when the overall effects on the financial statements are considered to be an **overall misstatement** that has an overall effect on the financial statements. The overall effect on the financial statements can also be expressed as a percentage of the total expenditure. To determine the overall nature of the error, the errors detected in the financial statements should be aggregated.

The level of **audit assurance** should be defined as the minimum level of assurance required to obtain reasonable assurance about the reliability of the financial statements. The sources of obtaining assurance should be described. An assessment and estimation of **risks** should be presented, which is designed to identify and document the risk of material misstatement that could affect the reliability of the financial statements.

Based on the audit evidence, the auditor should form an opinion as to whether the financial statements have been prepared in accordance with the applicable financial reporting framework and are free from material misstatement.

The auditor should issue an **unqualified opinion** if the audit evidence shows that the financial statements have been prepared, in all material respects, in accordance with the applicable financial reporting framework and there is no information that would indicate that the financial statements contain material misstatements.

If the auditor concludes that, based on the audit evidence obtained, the financial statements as a whole are not free from material misstatements or is unable to obtain sufficient and appropriate audit evidence to the contrary, the auditor should modify the opinion expressed in the report as follows:

- A **qualified opinion** should be issued when the auditor has obtained sufficient and appropriate audit evidence and concludes that the misstatements, individually or in the aggregate, are material but do not have an overall effect in relation to the subject matter of the audit; or is unable to obtain sufficient and appropriate audit evidence to support the opinion, but concludes that the possible misstatements not detected, individually or in the aggregate, may be material but not pervasive;

- An **adverse opinion** should be issued when the auditor concludes, based on sufficient and appropriate audit evidence obtained, that the misstatements, individually or in the aggregate, are both material and pervasive;
- **A disclaimer of opinion** is in place when the auditor is unable to obtain sufficient and appropriate audit evidence due to an uncertainty or scope limitation which is both material and pervasive.

7. The conduct of audits

7.1. SAO audits

The **process** and implementation of the **SAO's audits** are governed by the Act on the State Audit Office of Hungary and internal rules and regulations, which specify the tasks and the persons responsible for them, as well as the controls built into the audit process. These internal rules and regulations, as well as in-process controls contribute to the transparency of the implementation of the audits and support the substantiation of the findings in the SAO's reports on grounds of professional judgement. The in-process quality assurance is designed to ensure that the documents and working papers produced meet the required quality requirements, that the audit findings, conclusions and recommendations are substantiated and documented, and the quality of the audit reports is of a high professional standard. In-process quality assurance is supported by embedded legal quality assurance and a system of management forums.

Depending on the purpose of the audit, the audits may be carried out **as part of** a comprehensive, **in-depth audit** of the financial management and operation of the entities within the SAO's audit powers, or of the processes of a specific audit area or, or as part of a **rapid audit.** The SAO itself decides how the audits are carried out. The SAO may aim to carry out the audit as soon as possible and/or as quickly as possible in order to identify and record the facts as soon as possible.

7.1.1. Rapid, real-time audit

In order to be able to react directly and in a **timely manner** to societal problems, to emerging risks, to the dynamically changing environment, to detect any breach of the principles of legality, regularity, expediency and effectiveness in a timely manner, and to allow sufficient time to implement appropriate corrective measures, the SAO places a strong emphasis on prevention. It enhances the added value of its activities **by targeted, narrowly focused** and **rapid, real-time audits** that are close to or as close as possible in time to decisions on the use of public funds, underlying transactions and economic events.

Rapid, real-time audits are designed to take a **focused** approach to an issue, focusing on specific transactions, decisions and the operation of control activities. Rapid audits may also cover additional issues for which they do not necessarily provide an overall assessment or draw a conclusion.

When carrying out the audit, the auditors shall record in writing the facts established. Rapid audits typically cover a limited number of focus areas, transactions or economic events. The audited period may include a period from the value date close to the date of selection for the audit, up to the date of the start of the audit.

The SAO can produce an individual or summary report on rapid, real-time audits. In terms of content, the report may contain only the facts established or also conclusions and/or recommendations.

If justified by the findings of a rapid, real-time audit, the State Audit Office of Hungary may carry out further in-depth audits of the area concerned or notify the competent authority or body of its findings.

7.2. Advisory audit

The State Audit Office of Hungary can also carry out audits at the request of the proprietor, managing body, owner or founder, thus supporting the auditees. The SAO may carry out an advisory audit on the specified issues. For an advisory audit, the SAO draws up an audit programme, which includes the subject of the audit, the subject matter of the request in which the SAO will carry out the audit.

The result of the advisory audit is the non-public advisory opinion of the SAO, which contains the results of the advisory audit and, where relevant, the initiatives formulated on the basis of those results to the head of the audited entity. The SAO sends the advisory opinion to the head of the audited entity, which may then draw up an action plan.

8. Possible results of the audits

At the end of the audit process, the findings are synthesised during the preparation of the report. Compared to legality audits, which focus solely on the legality aspect, the audit aspects in **combined** and **systems audits** are much **more comprehensive**, not only focusing on compliance with the legislation applicable to the audited area or entity, but also providing an opportunity to form an opinion/position of the SAO on the audited area from a given aspect. **At the end of the audit process**, in the case of combined or systems audits, the synthesis of findings during the preparation of the report may require more time.

If the findings of the **combined audit** show that the audited entity has managed public funds and public property improperly (not lawfully, not expediently and/or not effectively), the audit report should reflect that the audited entity has not acted with due diligence.

Depending on the subject matter of the audit, the SAO considers the following **extreme cases**, among others, to be the cases and **criteria** for **which the audited has not acted with due diligence**:

- financial management **is not lawful** if
  - there is no established/operational internal control system in place, or its internal control system is not functioning properly;
  - as part of the control activity, the establishment of controls to mitigate risks to the achievement of organisational objectives, in particular the substantiation of decisions in terms of expediency, economy, efficiency and effectiveness, is not ensured for the activities/processes audited;
  - there is no/inadequate (budget) planning;
  - the performance of the tasks has not been done / is inadequate, there is no / inadequate financial management, public procurement has not been announced / has not taken place or it (was) not adequate;
  - there is no/inadequate asset management;

- there is no budget/there are no financial statements, or their data are not reliable;
- the implementation of the supported project has not been completed/is inadequate or the funds have been misused;

- financial management **is not expedient** if
  - the establishment / operation of the internal control system is not expedient;
  - the (budget) planning is not expedient, the appropriations, changes in appropriations are not/insufficiently justified/ the objective set cannot be achieved within the planned budget;
  - there are no or insufficiently justified objectives for the performance of the tasks, the intended result cannot be achieved by the objectives set, the performance of the tasks is not expedient or does not meet the intended objective, the decisions are not reasonable in the light of the available resources, the grants received for a given purpose are not consistent with the performance of the tasks;
  - decisions on revenues (grants) are not reasonable in light of the objectives set or the resources available;
  - revenues (grants) are not sufficient to cover expenditures;
  - the revenues (grants) have not been used for the objective set or have been misused;
  - decisions on expenditure are not reasonable in light of the objectives set or the resources available;
  - the expenditure is not/not properly justified, the expenditure has been effected in an amount insufficient for the proper performance of (public) tasks/ has not been used for the intended purpose/ reasonably;
  - decisions on public procurement or asset management are not reasonable in light of the objectives set or the resources available;
  - the ownership and operation of the assets created (after the completion of the project) has not been kept within the public administration/ in the ownership of the state/local government;
  - the grant has not been used for the purpose stated in the grant agreement or has not been used reasonably or without waste;
- financial management is **not effective** if
  - the design and operation of the internal control system do not ensure the prevention of irregularities;
  - the performance of the tasks has not contributed to the effective use of (budgetary) resources;
  - the performance of the audited entity has not achieved the set objectives and intended results (impacts);
  - indicators measuring the achievement of objectives has not been met;
  - the collection/use of revenues is not effective / does not ensure the effective achievement of the tasks (the approach to effectiveness is defined by the subject of the audit), the measures taken to collect revenues do not contribute to the most comprehensive collection possible, the expenditure effected has not achieved the set objectives and the intended results (impacts);
  - solvency is not assured in the short/long term;
  - the public procurement procedure has not achieved the set objectives and the intended results (impacts);
  - the supported project has not achieved the objective stated in the grant;

- the indicators set out in the tender/grant agreement have not been met or have not been verified by the donor.

9. Conformity of the professional rules on auditing with international standards

The State Audit Office of Hungary considers the International Organization of Supreme Audit Institutions' (INTOSAI) International Auditing Standards (INTOSAI Auditing Standards – ISSAI) as guidelines.

According to the INTOSAI Lima Declaration, the purpose of the SAI audit is to **reveal, in a timely manner, deviations** from the accepted standards of financial management, **violations of the principles of legality, efficiency, effectiveness and economy**, to make it possible **to take corrective action** in individual cases, to ensure that the accountable parties accept responsibility and that **the damage is recovered**, and to take steps to prevent or at least make it more difficult for such violations to occur.

The SAO considers the INTOSAI International Auditing Standards to be the to be guiding in relation to its professional activities and draws up its own professional rules in accordance with the ISSAI, adapted to its own legal and operational framework. This document builds on *the standard Fundamental Principles of Public Sector Auditing* (ISSAI 100), as well as *the Financial Audit Principles* and *Financial Auditing Standards* (ISSAI 200, ISSAI 2200-2810), the *Performance Audit Principles* and *Performance Auditing Standard* (ISSAI 300, ISSAI 3000), and the *Compliance Audit Principles* and *Compliance Auditing Standard* (ISSAI 400, ISSAI 4000). The SAO however uses terminology based on its own audit mandate to describe and classify the types of audit.

Appendix - Audit terms and their explanations

Expression in English	Explanation
accountability	For the Audit Office, accountability is the legal and reporting framework, organisational structure, strategy, and procedures and measures that assist the Audit Office: • to fulfil its legal obligations in relation to its audit mandate and the required reporting within its budget; • to evaluate and monitor its own performance and the impact of the audits it carries out; • to report on the regularity and efficiency of the use of public funds, including its own actions and activities and the use of the resources available to it; • to hold its management and staff accountable for their actions. (INTOSAI)
accrual-based accounting	Revenue, expenditure and economic events should be recognised in the period to which they relate when they are economically incurred (as opposed to cash accounting). (EU)
adverse opinion	If, in the opinion of the auditor, the financial statements contain material misstatements, the effect of which on the financial statements is material and comprehensive and as a result the financial statements do not give a true and fair view, the auditor shall express an adverse opinion in his report. (IFAC)
advisory opinion	At the request of the maintainer, managing body, owner or founder, an opinion on the results of the advisory audit carried out by the State Audit Office on the specified issue, which the State Audit Office shall send to the head of the audited body. (SAO Act)
annual report	A document or combination of documents prepared by management or those charged with governance, usually on an annual basis, in accordance with law, regulation or custom, to provide information to owners (or other stakeholders) about the activities of an entity and its financial performance and financial position. (IFAC)
Application Service Provider (ASP)	An electronic information system supporting the performance of municipal tasks, providing remote application services via a computer network. (ASP Gov. Decree[vii])
appropriate audit evidence	Audit evidence that is relevant and reliable. (INTOSAI)
assertions	Management's representations, explicit or otherwise, in the financial statements as used by the auditor in making judgments about possible misstatements of various types. (IFAC[i])

Expression in English	Explanation
attestation audit	During an attestation audit, the responsible party providing the data presents information or management assertions in relation to the subject matter of the audit against predefined criteria. These are the basic data for the audit. The objective of the audit is to verify the substantiation and reliability of the information and assertions made by the responsible party in relation to the subject matter of the audit. During the audit, the auditor obtains sufficient appropriate audit evidence to make findings, to draw conclusions and to provide a basis for an opinion. In all cases, the financial audits are attestation audits. (INTOSAI)
audit assurance	Audit assurance (which is inversely proportional to audit risk) is an indicator of the correctness, substantiation and reliability of the findings, conclusions, proposals, recommendations and opinions formed on the basis of the audit. The higher the level of audit assurance, the lower the level of audit risk is. In general, absolute assurance cannot be achieved, but a sufficiently high level of assurance can and should be sought. (ECA)
audit conclusion	Conclusions are assertions drawn from the audit findings that point to similarities or differences between the actual situation and the audit criteria, their significant causes or the combined effect of the differences. (ECA)
audit engagement	Audit activity carried out by the Supreme Audit Institution (SAI) on the basis of a legal requirement, mandate, order or request. (INTOSAI)
audit evidence	The facts, data, information and documents obtained during the audit on which the audit findings, conclusions and opinions are based. Audit evidence should be sufficient and appropriate, relevant to the audit objectives, reliable and support the findings, conclusions and opinion. It is also expected that the time and cost of obtaining evidence should be proportionate to its return. (INTOSAI)
audit finding	Classification of the actual situation in the audited area according to the audit criteria on the basis of audit evidence collected in accordance with the audit objectives. (INTOSAI)
audit mandate	The audit functions, rights and obligations of the supreme audit institution (SAI) as laid down in the Constitution / Fundamental Law of the country and/or other laws enacted by its legislative body. (INTOSAI)
audit objective(s)	Specification of what the audit is intended to achieve and/or what questions it will answer. It can include financial, compliance or performance objectives. (INTOSAI)
audit of the final accounts	Verification of the compliance of the draft law on the implementation of the central budget with the legal requirements and the reliability of the data contained therein. (SAO)

Expression in English	Explanation
audit opinion	The Audit Office's position on the financial statements, in a standardised format, included in the audit report. It should clearly state whether it includes a qualification in relation to the financial statements. If it contains a qualification, the opinion may be qualified, an adverse opinion or a disclaimer of opinion. (IFAC)
audit plan	The document that provides the basis for the audit activity of the State Audit Office and is approved by the President of the State Audit Office. The President of the State Audit Office shall inform the National Assembly about the audit plan and its amendments. (SAO Act)
audit planning	For each audit, it includes the definition of the audit objectives and the nature, scope, quantity and timing of the procedures and tests necessary to achieve those objectives, the end product of which is the audit programme. (INTOSAI)
audit procedures	The audit methods and procedures used to obtain and analyse sufficient and appropriate audit evidence for the consistent implementation of the audit programme. (ECA)
audit program(me)	A planning document for an audit that describes the title, subject matter, legal basis, objective, scope and methods of the audit, the type of audit, the period to be audited, the audit criteria, the auditees to be audited, the nature, timing and extent of the planned audit procedures and the planned resources to be used to carry out the audit. The audit programme also sets out requirements for the accurate performance and documentation of audit tasks. (SAO)
audit recommendation	An action recommended to the auditee or other responsible party based on the audit findings and conclusions, related to the objectives of the audit. Recommendations must be substantiated, i.e. properly supported by findings and conclusions, and feasible. (SAO)
audit results	Findings, conclusions, or opinions or recommendations following the performance of the audit. (SAO)
audit risk	Audit risk (which is inversely proportional to audit assurance) is the risk that the auditor will make an inappropriate finding or reach an incorrect conclusion in the report. Its three components are inherent risk, internal control risk and detection risk. Audit risk can be expressed as a product of these. (ECA, INTOSAI)
audit sampling	An audit procedure designed to provide the auditor with characteristics and information specific to the sample items or to the population as a whole, based on the evidence obtained from the audit of sample items selected from the (basic) population, depending on the sampling method. (IFAC)
audit scope	The scope of the audit determines the audit procedures and methods to be used to ensure that the audit objectives are achieved, as well as the focus, extent and limits of the audit, taking into account materiality and risks. It should be clearly indicated which criteria are covered by the audit. The whole audit process should be designed to cover the full scope of the audit. Any limitations on the scope of the audit should be described in the report. (INTOSAI)

Expression in English	Explanation
audit trail	A textual description of the operational processes, illustrated by tables or flow charts, including in particular the levels of responsibility and information and responsibility relationships, management and control processes, allowing their monitoring and ex-post control. (Internal Controls Decree[x])
audit(ing) standards	Documents that provide guidance to Supreme Audit Institutions and help to define the audit steps and procedures necessary to achieve the audit objectives. (INTOSAI, IFAC)
audit, auditing	The evaluation and rating of an entity's (programme's) activities and/or operations against criteria to ascertain whether the entity's operations and activities are in accordance with the objectives, budget, rules and other requirements and standards. The State Audit Office of Hungary carries out its audits according to the criteria of legality, expediency and effectiveness. (INTOSAI[iii], SAO).
audited entity (auditee)	The entities audited by the State Audit Office of Hungary or auditable by law, who (or their employees) are obliged to cooperate in the conduct or planning of audits. (SAO Act[xi])
auditor	The auditor is a person with a higher education degree acting within the scope of responsibilities and powers of the State Audit Office in decisive, auditing and supporting roles. (SAO Act)
auditor's report	A document drawn up and signed by the auditor recording all material facts, conclusions and findings relating to the results of the performance of the audit task as set out in the audit programme. (SAO)
authorities	The laws, regulations, directives, international treaties and conventions, collections of laws, public law regulatory instruments governing the sound financial management, administrative management, budgetary and property management of the public sector and the conduct of public sector employees, other instruments of governance and management, convention terms or general principles, codes of ethics, and other rules that provide the basis for compliance audit criteria.
benchmark	A measure of excellence, performance, etc. in the evaluation of the subject matter of an audit against which the subject matter can be compared or measured. (SAO, INTOSAI)
benchmarking	A method of analysis used in performance auditing to compare the performance and characteristics of an entity with those of other (best) entities and with professionally accepted criteria in order to identify opportunities for quality and performance improvement.
budget, budgeting	The planned and quantified comparison of expected revenue and expenditure for a given period (most often a given year) in a specified order on the basis of available information. (EU, Act on Public Finances[xiv])

Expression in English	Explanation
call for action	If the audit reveals a serious error or deficiency requiring immediate action, the resolution of which cannot wait until the issuance of the SAO report containing the results of the audit, the President of the State Audit Office may send a call for action to the head of the audited entity to request elimination of any unlawful practice or improper or wasteful use of assets, unless the law provides for the application of more severe legal consequences. (SAO Act)
cash-based accounting	Expenditure is recognised when it is actually paid and revenue when it is actually collected (as opposed to accrual-based accounting). (EU)
combined audit	Audits carried out by the Audit Office using any combination of the criteria of legality, expediency and effectiveness, as laid down in the Fundamental Law for the audits by the State Audit Office, but the simultaneous application of all three criteria is not a prerequisite. (SAO)
comparative financial information	The corresponding amounts or other disclosed events for the preceding financial period(s) presented for comparison. (ECA)
compliance	Conduct, activity or mode of operation that complies with policies, plans, procedures, laws, regulations, other instruments of governance, contracts and other requirements. (INTOSAI)
compliance audit	Compliance audits are designed to determine whether the activity or operation (financial transaction, information or data) audited complies in all material respects with the regulations and requirements applicable to the audited entity. This includes determining the extent to which the audited entity meets the relevant audit criteria. These criteria may include legislation, budgetary policies, generally accepted guidelines, principles of public sector management and fair conduct of employees. A compliance audit can be a regularity audit, an appropriateness audit or a combination of both. (ISSAI 400, ISSAI 4000)
comprehensive audit	The joint and interrelated audit of professional tasks and financial management processes. (SAO)
confidence level	A concept related to the sampling procedure, which expresses the confidence with which the error value projected from the sample can be generalised to the (basic) population on which the sample is based. (SAO)
control	Any action taken by the entity’s management, governing body or other parties to manage risks and promote the achievement of stated objectives. (INTOSAI)

Expression in English	Explanation
control activities	The policies that form part of the internal control system and the procedures implemented under them to ensure that risks are managed, contribute to the achievement of the entity's objectives and strengthen the integrity of the entity, including the choice of control strategy, the establishment and operation of control elements. Control activities at all levels and in all operational areas of the organisational hierarchy ensure that management's guidelines and instructions for managing risks that affect objectives are implemented in such a way that the risk identified by management remains within tolerance. (INTOSAI, ICSPSPG)
control environment	The control environment is part of the internal control system and includes the regulatory environment, the governance and management functions, and the attitudes, awareness and actions of those charged with governance and management with respect to the entity's internal control system, in order to establish a clear organisational structure, transparent processes and clear lines of responsibilities and competence. Elements of the control environment: philosophy and style of management; setting of objectives and performance evaluation; individual and organisational integrity and ethical values; commitment to competence – human resources policy and practice; organisational structure appropriate to the activity; development of internal policies, assignment of responsibilities, precise definition and communication of related tasks to staff; development of effective organisational governance – proper planning and organisation of processes and sub-activities and reasonable provision of resources; definition of risk tolerance. (INTOSAI, ICSPSPG[xiii])
controlling	A feedback activity to monitor the implementation of the business plan (budget) and track the achievement of objectives.
cooperative audit	An audit involving cooperation between the supreme audit institutions of two or more States, which may be coordinated, parallel or joint, depending on the nature of the cooperation. (INTOSAI)
corroborative evidence	Information, data or documents from a source outside the audited entity that support another piece of evidence already obtained. (ECA)
COSO-model	A framework for internal control, consisting of 5 elements (control environment, integrated risk management system, information and communication system, control activities, monitoring system), as set out in the Recommendation of the Committee of Sponsoring Organizations of the Treadway Commission. (INTOSAI, COSO)
cost-benefit principle	The usefulness of the information disclosed in the report should be proportionate to the costs of producing that information. (Accounting Act)
criteria	The audit criteria are the benchmarks used to assess the subject matter. The audit criteria may be qualitative or quantitative (quantifiable), general or specific, and may be derived from different legal or public law regulatory instruments, other management tools or good practices.

Expression in English	Explanation
detection risk	The risk that the auditor will not detect or identify a material error, irregularity, weakness in operation and performance or misstatement that has not been corrected by the entity's internal control system. (ECA, INTOSAI)
detective control	Controls that detect errors that have already occurred, pointing out the impact of the error or deficiency on the entity in addition to the fact that it occurred. Despite their *ex post* nature, they are dissuasive. (INTOSAI)
direct reporting engagement	In the case of a general audit engagement, the findings are recorded after the subject of the audit has been measured, qualified and evaluated against the criteria set out in the audit programme. The results of the evaluations or measurements are presented in the auditor's and the SAO's report in the form of findings, conclusions or recommendations. (INTOSAI)
disclaimer of opinion	If the auditor is unable to form an opinion on the financial report as a whole because he has identified a material uncertainty or scope limitation that would render a qualified opinion inappropriate, he shall disclaim to give an opinion. The wording of the disclaimer of opinion shall make it clear that an opinion cannot be given, explaining clearly and concisely the factors of uncertainty. (IFAC)
disclosure	Disclosure of certain information, usually in the form specified in the financial report and related documents. (ECA)
documentation	The documents, records and the activity of creating and organising them, which certify the performance of the audit work and compliance with the relevant professional rules. All documents, working papers, and other data and information received from external entities, collected and organised, or prepared by the auditor in connection with the audit. (SAO)
due (professional) care	The auditor should exercise due professional care during the audit. This means that the audit should be carried out in accordance with professional standards and relevant rules (including audit and reporting rules) to ensure that the findings are correct. Due professional care should include, in addition to professional detachment (objectivity), the proper handling of the data and evidence obtained, confidentiality, and the careful planning and conduct of the audit. (INTOSAI)
due diligence	Proceeding with due care, characterised by prudent caution and the assessment of the consequences and outcomes of decisions. (SAO)
economy	The principle of economy means minimising the cost of the resources used to achieve the results. The resources used must be available on time, in the right quantity and quality, and at the best price. Cost minimisation does not mean the cheapest solution, and expenditure should always be qualified in relation to the results actually achieved. (INTOSAI)

Expression in English	Explanation
effectiveness	The principle of effectiveness refers to the achievement of set objectives and intended results (impacts). The effectiveness of financial management and the performance of tasks is shown by comparing actual and planned results (impacts). (INTOSAI)
efficiency	The principle of efficiency refers to making the best use of the resources available to the entity. This principle refers to the relationship between resources used and results achieved in terms of quantity, quality and time. (INTOSAI)
engagement letter	The engagement letter is an authorisation for a person carrying out an audit on behalf of the State Audit Office to carry out a specific audit task. A person carrying out an audit on behalf of the State Audit Office must present his engagement letter to the head of the audited entity and to provide credible proof of his identity when starting the on-site audit. (SAO)
ex ante audit	Audit carried out by some SAIs (as part of their authorisation function) prior to the execution of administrative or financial operations or transactions. (EU)
ex post audit	Audit carried out following the execution of administrative or financial operations or transactions. (EU)
expediency	The requirement is that revenues shall be used for the performance of a public task and expenditure shall be incurred to the extent necessary for the proper performance of public tasks , in the interest of the budgetary objectives, for a specific purpose (performance of a public duty) and in a reasonable and rational manner. (Fundamental Law, SAO)
external audit	An audit conducted by an (external) auditor independent of the audited entity and/or its management. (EU)
financial audit	A type of audit that in which the auditor determines whether the information in an entity's financial statements is presented truly and fairly, is free from material misstatement, whether due to fraud or error, and complies with applicable financial reporting and regulatory framework, thereby contributing to the intended users' confidence in the financial statements. (ISSAI 200, ISSAI 2200-2810)
financial management	It refers to management's obligations to establish and implement rules to ensure the economy, efficiency and effectiveness of the use of available public funds. (Financial) management includes planning, budgeting, accounting and bookkeeping, reporting and certain ex ante financial controls. (EU[ii])
financial statements	A structured presentation of historical financial information, including disclosures, that is designed to communicate the economic resources or liabilities of an entity at a particular date, or changes in those resources or liabilities during a period, in accordance with some financial reporting framework. (IFAC)

Expression in English	Explanation
fraud	Fraud is an intentional act involving deception used to obtain an unfair or illegal advantage. The risk factors that make up the so-called fraud triangle, motivation, opportunity, rationalisation, are events or conditions that indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud, and which, when combined, can be said to constitute fraud. (IFAC, SAO)
going-concern principle	Drawing up the financial report and the accounting records shall be based on the assumption of the economic entity's capacity to sustain operations for the foreseeable future and on its ability to continue its activities, and the termination of, or a considerable reduction in, operations for any reason is not expected. (Accounting Act)
good governance	A mode of operation through which public sector organisations, in cooperation with other stakeholders in society, can respond effectively to economic, social and environmental challenges by acting efficiently, effectively, reliably, transparently and responsibly for the common good. (SAO)
independence	The supreme audit institution can only perform its functions objectively and effectively if it is independent of the audited entity and protected from external influence and has functional and organisational independence to carry out its functions. The establishment of the supreme audit institution and the necessary degree of its independence should be laid down in the Constitution/Fundamental Law. (INTOSAI)
information and communication	It is part of the internal control system and involves the conscious and continuous communication by management in relation to the regulatory environment and internal standards, the identification of threats to the proper and efficient performance of activities, and the taking of measures to ensure proper and efficient operations. (INTOSAI, COSO)
integrity	Values-driven behaviour/operation, based on the stated values and principles of the person or entity. For entities, it means operating in a positive way, in line with societal expectations, based on sound values and free from fraud, corruption and abuse. (SAO)
intended user(s)	Intended users are the primary recipients of the SAO report: the heads of the audited entities, the National Assembly and its committees, the Government, public sector organisations, the parties concerned by the findings of the report or the public. (INTOSAI, IFAC)
internal audit	The functional means by which an entity's managers obtain assurance from an internal source that the processes for which they are responsible are operating in a way that minimises the likelihood of fraud, errors, irregularities or uneconomic, inefficient procedures. It can be an independent internal department or person carrying out audits for the management of the entity, whose main task is to monitor and evaluate the existence and functioning of the entity's internal management and regulatory system. Internal audit activities may also be carried out by an external service provider. (INTOSAI)

Expression in English	Explanation
internal auditor	A person or entity performing an internal control function who inspects and contributes to the ongoing effectiveness of the internal control system through assessments and recommendations, but who does not have primary responsibility for the design, implementation, maintenance and documentation of the internal control system. (EU)
internal control risk	Internal control risk is the risk that the internal control system of the audited entity (organisation, activity, project) fails to prevent or indicate and correct errors, irregularities, weakness in operation and performance, or misstatements arising from inherent risks. (ECA, INTOSAI)
internal control system	The internal control system is a coherent set of principles, procedures and internal policies that, among other things, ensures that all the activities and objectives of the entity are in conformity with the requirements of regularity, regulation, economy, efficiency and effectiveness, that there is no waste, no misuse and that up-to-date information is available. (INTOSAI, COSO[ix])
legality	Obligation to comply with the provisions of the Budget Act and other legislation on the management of public funds and public property relating to the financial management or operation of the State. (Fundamental Law, SAO)
legality audit	This type of audit is carried out in cases where the relevant legislation defines the scope of the Audit Office's audit and the audit tasks to be performed in the framework of the audit, limiting the focus of the audit to the legality aspect only. Financial audits are also considered to be legality audits when the Audit Office audits financial statements. (SAO)
letter accompanying the report	A letter sent by the State Audit Office of Hungary to the management of the audited entity, providing information on facts and circumstances considered reasonable in connection with the audit or report. (SAO)
level of assurance	The level of the correctness, substantiation and reliability of the findings, conclusions, proposals, recommendations and opinions formed on the basis of the audit. (IFAC, EU)
limitation of scope	Limitation of scope means limiting the scope of the audit work (due to the characteristics of the auditee, circumstances beyond the auditee's control, or other events). Any limitations of scope, whether due to internal intent or external circumstances, should be described in the report. (IFAC, SAO)
limited assurance	With limited assurance, the audit risk is higher than with reasonable assurance. Where only limited assurance can be obtained from a particular audit, this should be stated in the report, indicating that nothing has come to the attention of the auditor that gives reason to believe that the item does not meet the criteria. (INTOSAI)
low efficiency	A situation where the resource/output ratio is not optimal. (SAO, MOF[vi])
management	All activities and decisions related to the responsible use of resources. (SAO)

Expression in English	Explanation
management	Management includes senior executives and other persons performing top management functions. (INTOSAI)
management declaration	Official document issued by the management of the audited entity in relation to the audit. (SAO)
management letter	A written document addressed to the management of the audited entity or the entity concerned by the audit, addressing the findings and recommendations on internal controls identified during the audit that are not included in the report, as well as other management issues. (IFAC)
misstatement	Incorrect information in the financial statements due to intentional acts (fraud) or unintentional acts (error). (IFAC)
modified opinion	Qualified opinion, adverse opinion or disclaimer of opinion on the financial statements. (IFAC)
monetary unit sampling (MUS)	A statistical sampling procedure which, through random selection, gives each monetary unit an equal probability of being included in the sample. (SAO)
monitoring	The monitoring system of an entity may consist of continuous and ad hoc monitoring in the framework of operational activities, as well as internal audit operating independently of operational activities. (INTOSAI, COSO)
national asset(s)	The totality of the assets specified in the Act on National Assets. (Act on National Assets[xvi])
necessary measure	Ensuring that expenditure is used to the extent necessary for the proper performance of public duties. (SAO Act)
non-compliance	An omission or act, whether intentional or unintentional, committed by the entity, by persons charged with governance, by management or others working for or under the direction of the entity, in connection with the entity's activities, that is contrary to applicable legal requirements, internal policies or other instruments of governance. (IFAC)
non-sampling risk	The risk that the auditor will reach an erroneous conclusion for any reason unrelated to sampling risk. The non-sampling risk arises because, for example, most audit evidence is persuasive rather than conclusive, or the auditor might use inappropriate audit procedures or might misinterpret evidence and thus fails to recognise an error. (IFAC)
numerical adequacy	The correspondence of numbers (invoices, licences, vouchers). (SAO)
objectivity	An unbiased approach whereby the auditor performs his duties in a manner that inspires confidence in the results of his work, exercising professional judgment on audit matters without bias. (INTOSAI)
operation(s)	The functions, procedures and operations by which organisational objectives are met. (INTOSAI)
operational failure	Lack of or failures in internal management and regulatory procedures, or other errors and irregularities that may prevent the achievement of organisational objectives.

Expression in English	Explanation
output	The direct products and services of a programme, project or process that are entirely dependent on the implementers of the programme or project. (EU)
overpayment	A payment where the resources actually used are acquired at a cost that could have been lower. (SAO, MoF)
peer review	A peer review or evaluation of one or more elements of the organisation and/or functioning of the supreme audit institution, carried out by a partner institution or group of partner institutions. (INTOSAI, SAO)
performance audit	This type of audit is aimed at providing constructive support for the effective, efficient and economical use of public funds, the financial management of national assets and the performance of tasks. It also aims to identify the factors that influence financial management and the performance of tasks, and that may hinder the achievement of the requirements of effectiveness, efficiency and economy, and to point out how these can be eliminated, how their negative effects can be reduced, and whether there are untapped opportunities to improve performance. (ISSAI 300, ISSAI 3000)
performance indicators	A set of indicators that are part of the performance criteria, measurable and expressible in natural terms, used by the auditees at their own discretion to assess their own performance and/or used by the auditor to assess performance.
population	The entire set of units or data from which samples are taken and on which the auditor wishes to draw conclusions. (IFAC)
predictive testing	An analytical procedure whereby the auditor estimates the amount of certain elements of revenue and expenditure and compares it with the data in the audited entity's financial statements. (IFAC, ECA)
presidental recommendation	A non-mandatory and legally non-binding recommendation issued by the President of the State Audit Office of Hungary promoting uniform application of the law in the case of requests concerning the same or similar matters within the responsibilities and competence of the SAO, in order to promote voluntary compliance with the law. (SAO Act)
preventive control	Controls whose primary purpose is to prevent the process from proceeding in the event of incorrect steps or non-compliance in order to avoid undesirable events or outcomes (as opposed to detective controls). (INTOSAI)
principle of accruals	The consequences of economic events concerning two or more financial years shall be recognised under the revenues and expenses of the period in question in the proportion in which they are incurred between the underlying period and the accounting period. (Accounting Act)
principle of clarity	The accounts and the accounting/budgetary report shall be prepared in a clear, comprehensible and orderly format in accordance with the Accounting Act. (Accounting Act)

Expression in English	Explanation
principle of completeness	Economic entities shall account for all economic events whose effect on assets and liabilities and on profit or loss for the year are to be reflected in the report, including those economic events relating to the current business/financial year that become known after the balance sheet date but before the closing date of the balance sheet, and those resulting from events in the business/financial year ending on the balance sheet date that have not yet occurred before the balance sheet date but become known before the closing date of the balance sheet. (Accounting Act)
principle of consistency	Consistency and comparability must be ensured in the content and format of the accounting/budget implementation reports and the accounting records supporting them. (Accounting Act)
principle of continuity	The opening figures for the financial/business year must be the same as the corresponding closing figures for the previous financial/business year. In consecutive years the valuation of assets and liabilities, and the assessment of profit or loss may be altered only in accordance with the rules laid down in the Accounting Act. (Accounting Act)
principle of matching	When determining the profit or loss for a period, the recognised revenues and the corresponding costs (expenses) of the activities for the period shall be taken into account, regardless of their financial settlement. Revenues and costs shall relate to the period in which they were incurred for economic purposes. (Accounting Act)
principle of materiality	For the purposes of the accounting/budgetary report, information is material if its omission or misstatement may reasonably influence the judgments of users of the data in the report. The materiality of individual items shall be assessed in the context of other similar items. (Accounting Act)
principle of no netting (grossing up)	With the exceptions laid down in the Accounting Act, revenues and costs (expenditures), and receivables and liabilities may not be offset against one another. (Accounting Act)
principle of prudence	No profit shall be recognised if the financial realisation of the revenue or certain items of income are uncertain. Depreciation, impairment and provisions shall be recognised regardless of whether the result for the financial year is profit or loss. (Accounting Act)
principle of valuation on an item by item basis	Assets and liabilities shall be entered and evaluated item by item in the course of bookkeeping and preparing the report. (Accounting Act)
programme evaluation	Programme evaluation is a performance audit that systematically analyses the objectives, implementation, outputs, outcomes and impacts of a programme/activity, and measures performance in order to assess the social utility, relevance and sustainability of the programme, in addition to its effectiveness, economy and efficiency. (SAO)

Expression in English	Explanation
public accountability	Persons or entities entrusted with the management of public goods, including NGOs or public enterprises receiving grants, are responsible for the financial assets, financial management and programmes entrusted to them and should be accountable to those who entrusted them with these tasks. (INTOSAI)
public enterprises	Enterprises in which the Hungarian State, a local government, an association of local government with legal personality, a multi-purpose small-area association, a development council, a national minority government, an association of national minority governments with legal personality, a budgetary body or a public foundation, individually or jointly, hold a majority of the voting rights.
public financial management	The collection, management and expenditure of general government funds in the economy as a whole. (IFAC)
public funds	The funds and assets available in the sub-sectors of general government and the expenditure charged to the sub-sectors of general government (including debts assumed and guarantees and commitments entered into against the general government system, legal transactions, legal relationships and assets relating to their use) which the State Audit Office has a statutory mandate to audit.
public information	Data of public interest and data accessible on public interest grounds as defined in the Act on the Right to Informational Self-Determination and Freedom of Information. (Privacy Act[xv])
public sector	The platform for the production, protection and redistribution of public goods, coordinating and financing public services. This includes central and local government budgetary entities, public bodies, earmarked state funds, social security funds, non-profit, non-market (public) institutions, as well as state and municipally owned enterprises and non-governmental, non-market organisations that operate with government control or funding. (SAO)
qualified (limited) opinion	A type of modified opinion given by the auditor/Audit Office on the financial statements when, even if it is not possible to obtain sufficient audit evidence to provide a basis for an opinion, based on the conclusions drawn, the misstatements, individually or in the aggregate, are material but do not have an overall effect. (IFAC)
rapid audit	So-called rapid, real-time audits are designed to take a focused approach to an issue, focusing on individual transactions, decisions and the operation of control activities rather than on the regulation of the audited area. The SAO may aim to carry out the audit as soon as possible and/or as quickly as possible in order to identify and record the facts as soon as possible. (SAO)
reality over appearance (substance over form)	In the financial report and the relevant accounting records, economic events and transactions shall be shown and accounted for reflecting their economic substance. (Accounting Act[v])

Expression in English	Explanation
reasonability	Conscious decision-making or the conscious use of resources in such a way as to take into account the potential advantages and disadvantages, be aware of the consequences, avoid excesses, seek consistency with its own actions, apply the right principles and be willing to self-correct when given the right arguments. (SAO)
reasonable audit assurance	High level, but not absolute assurance. In the opinion of the auditor, the subject matter of the audit meets or does not meet, in all material respects, the stated criteria and, if so, is truly and fairly presented in all material respects. (INTOSAI)
reasonable audit evidence	Information that is cost-effective in terms of the cost of collecting the information being proportionate to the intended result. (INTOSAI)
recurring audit	A recurring audit task to be carried out at intervals specified by law. (SAO Act)
regularity	Operating/managing funds/performing functions legally and in compliance with legal requirements and internal rules and regulations in accordance with such legal requirements. (SAO)
regularity audit	A commonly used subtype of compliance audit. In the case of compliance audits, the relevant provisions are the formalised rules, laws, decisions, instructions and other regulatory instruments, as well as the instructions of the competent authorities specified in the legislation, with which the entities must comply. This includes compliance with conditions that are binding on the audited entity, such as those set out in agreements and contracts. The regularity audit covers the verification of compliance with specific control criteria, legal requirements, other rules and agreements, including compliance with budget-related legislation. (ISSAI 400, ISSAI 4000)
relevant audit evidence	Information, data, documents pertinent to issues related to the objectives of the audit. (INTOSAI, EU)
reliable audit evidence	Audit evidence is reliable if it is objective. Objectivity depends on the source and nature of the evidence (e.g. oral, written, copy, original, etc.). (INTOSAI, EU)
residual risk	The risk remaining (unmanaged) after management has responded to the risk. (ECA, INTOSAI)
risk appetite	The broad-based amount of risk an entity is willing to accept in order in pursuit of its objectives. (INTOSAI)
risk assessment	Taking into account the audit criteria, the scope of the audit and the characteristics of the audited entity, the auditor should use risk assessment procedures to analyse risks in order to determine the nature, timing and scope of the audit procedures to be conducted. (INTOSAI)
risk assessment	One of the elements of the internal control system is the integrated risk management system, which includes the identification, assessment, analysis, grouping, monitoring and, where necessary, mitigation of risk exposure inherent in the entity's activities and financial management, which threaten the achievement of organisational objectives. (INTOSAI, COSO)

Expression in English	Explanation
risk profile	A summary or tabulation of the main risks faced by the entity or a unit of it, including the significance of the risk, its expected impact (high, medium or low), together with the possibility or probability of an undesirable event occurring. (INTOSAI)
risk tolerance	Acceptable risks relative to the achievement of the objectives. (INTOSAI)
sample size	The number of elements from the (basic) population to be included in the sample.
sampling risk	The risk that the auditor's conclusion drawn from the sample may differ from the conclusion that would be drawn if the same audit procedure were performed on the entire population item by item. There are two types of sampling risk: - risk of incorrect acceptance: the risk that the auditor assesses a material error as unlikely when in reality the population in fact contains a material error; - risk of incorrect rejection: the risk that a material error is assessed as likely when in fact there is no material error in the population. (IFAC)
sampling unit	The individual items that make up the population from which the sample is taken. Sampling units can be physical items (e.g. credits listed on a bank statement, sales invoices, etc.) or monetary units. (SAO)
simple random sample	A sample where it is ensured that all the elements of the population are included in the sample with the same predefined probability. An element can only be included in the sample once. (SAO)
sound financial management	The application of economy, efficiency and effectiveness criteria in the implementation of the budget and in the management and use of public goods. (ECA[iv])
squandering	The use of resources that are not necessary to produce the intended result. (SAO, MoF)
stratification	The division of the (basic) population into sub-populations based on specified criteria. (IFAC)
subject matter	The information, condition, circumstance or activity that is measured or evaluated against certain criteria. (INTOSAI)
substantiation (of the budget)	The substantiation of the budget by calculations in accordance with the applicable methodology and, as regards expenditure and revenue, their link with the public task and the justification for their occurrence on a regular or ad hoc basis (under legal obligations and/or in the context of the use of assets). (SAO)
substantive procedures	Tests and procedures performed to obtain audit evidence to detect material errors, irregularities or underperformance. (INTOSAI, IFAC)
sufficient audit evidence	A sufficient amount of data and information to support the findings or opinion in the report with a high degree of certainty. What constitutes sufficient audit evidence in a particular case is a matter for the auditor to judge based on his knowledge of the entity (activity, programme) being audited and his risk assessment of the (sub)area of the audit. (INTOSAI)

Expression in English	Explanation
Supreme Audit Institution (SAI)	A body of a state or supranational organisation that independently and objectively performs the highest level of public sector audit function. The functions and powers of the supreme audit institutions may vary according to their specific mandate and the legal framework within which they operate. (INTOSAI)
sustainable development	Development that meets the needs of the present without compromising the ability of future generations to meet their own needs. (EU, UN[xii])
systems audit	Systems audits are included in the scope of performance audits. It examines whether the intended objectives have been achieved effectively, economically and efficiently as a consequence of the owner/manager interventions, in order to achieve the planned socio-economic and social changes. (SAO)
systems audit	Audits of systems, broad areas, sectors, where the State Audit Office assesses effectiveness using a system-oriented, results-based or problem-based approach. It focuses on areas (measures, activities, programmes) where the audit can add value for citizens and where there is the greatest potential for improvement. (SAO)
tests of controls	Testing the internal management and control system provides audit evidence on: (a) the design of the accounting and internal control systems, that is, whether they are adequate to prevent or detect and correct material misstatements; and (b) the functioning of internal control systems during the period under review. (INTOSAI, IFAC)
tolerable error rate	The defined rate of erroneous items for which the auditor seeks a reasonable level of assurance that the actual rate of errors in the population does not exceed the rate of errors predetermined by the auditor. (IFAC)
transparency	Timely, reliable, clear and relevant public reporting on the status, mandate, strategy, activities, financial management and performance of the SAI, including public reporting of audit findings and conclusions and public access to information about the institution. (INTOSAI, SAO)
transparent (management of public funds)	All entities that manage public funds must account for their management of public funds to the public. Support or contractual payments from the central budget may only be granted to entities of which the ownership structure, the organisation and the activity aimed at the use of the support is transparent. (SAO, Fundamental Law[viii])
true and fair view principle	Items recorded in the accounts and included in the report shall be real, verifiable and capable of being ascertained by external parties. Their valuation shall be in accordance with the valuation principles prescribed by the Accounting Act and the related valuation procedures. (Accounting Act)
uncertainty	A circumstance whose effect depends on future activities or events, rather than on the direct influence of the entity, but which has an impact on the financial statements/annual report. (IFAC)

Expression in English	Explanation
unqualified opinion	An unqualified opinion is given by the auditor when he is satisfied in all material respects that (a) the financial report has been prepared using generally accepted accounting principles and policies consistently applied; (b) the report complies with the legal requirements and other applicable provisions; (c) the picture presented by the financial report is consistent with the auditor's knowledge of the audited entity; and (d) all material issues relating to the financial report have been adequately disclosed. (IFAC)
wastage	A situation where the use of resources does not lead to the intended result. (SAO, MoF)
wastefulness	The case of paying for resources of better quality than needed to produce the intended result. (SAO, MoF)

List of abbreviations

i. SAO / Audit Office: State Audit Office of Hungary
ii. IFAC - International Federation of Accountants (Nemzetközi Könyvvizsgálói Szövetség)
iii. EU – European Union
iv. INTOSAI - International Organization of Supreme Audit Institutions (a Legfőbb Ellenőrző Intézmények Nemzetközi Szervezete)
v. ECA – European Court of Auditors (Európai Számvevőszék)
vi. Accounting Act – Act C of 2000 on Accounting
vii. MoF – Ministry of Finance
viii. ASP Government Decree – Government Decree 257/2016 (VIII. 31.) on the municipal ASP system
ix. Fundamental Law – Fundamental Law of Hungary
x. COSO – Committee of Sponsoring Organizations of the Treadway Commission (A Treadway Bizottság Szponzoráló Szervezeteinek Bizottsága)
xi. (Internal Controls Decree – Government Decree 370/2011 (XII. 31.) on internal control system and internal audit of budgetary entities
xii. SAO Act – Act LXVI of 2011 on the State Audit Office of Hungary
xiii. UN – United Nations (Egyesült Nemzetek Szervezete)
xiv. ICSPSPG – Internal Control Standards for the Public Sector and Practical Guide
xv. Act on Public Finances – Act CXCV of 2011 on Public Finances
xvi. Privacy Act – Act CXII of 2011 on the Right to Informational Self-Determination and Freedom of Information
xvii. Act on National Assets – Act CXCVI of 2011 on National Assets

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