



Day of the meeting	Agenda item	Speaker
15 November 2010	Introductory speech of the President of the State Audit Office of Hungary to the Budget Bill of the Republic of Hungary for 2011 as well as the relevant SAO opinion (No. T/1498, T/1498/1)	László Domokos President

LÁSZLÓ DOMOKOS, President of the State Audit Office of Hungary:

Honourable Mr. Speaker,

Honourable Members of Parliament,

The State Audit Office of Hungary provides an opinion on the substantiation of the budget appropriation bill and the feasibility of the revenue appropriations based on the Constitution and the Act on the State Audit Office of Hungary. According to the Act on Public Finances, the National Assembly discusses the budget appropriation bill together with the opinion of the SAO and the opinion of the Fiscal Council.

Primarily, in the course of the examination, we assess whether the Act on Public Finances is respected, whether the appropriations are substantiated, and whether the planning circular of the Ministry for National Economy is observed; as well as the resources planned in the central budget for local governments.

In the course of giving an opinion on the budget appropriation bill, we deem it considerably important not to touch upon the directions and proportions of the reallocation of public funds or the substantiating political and economic policy decisions, since our legal mandate does not extend to these. Besides, we consciously aspire to publish our opinion on the budget appropriation bill – as far as the presentation of the budget appropriation bill makes it possible – in a standardised structure that allows for a yearly comparison.

The contents, structure and methodology of the compilation of the document on the budget appropriation bill is not determined, so the

regulation and practice of its formulation, submission to the National Assembly and forwarding it to us for giving an opinion is an external factor and, at the same time, a firm restricting condition.

The current legal system does not include stipulations as to the time available for the preparation of the opinion; the deadline within which we should receive the complete and final budget appropriation bill is not regulated. Every year, it renders the organisation of work and scheduling of the formulation of our opinion more difficult, and makes our work fast-paced. We usually receive the budget appropriation bill at the same time as the submission to the National Assembly occurs. Under these circumstances, we cannot, we could not assist the National Assembly in exercising their budgetary rights by means of a full-fledged opinion on chapter justifications.

In the course of giving an opinion on and examining the budget appropriation bill, we have indicated recurrently every year that the explicit rules of the adoption of the budget appropriation bill are absent, and that it is necessary to completely regulate and stipulate the content and formal requirements of these documents, as well as to overview what information content would prove necessary and sufficient for the debate of the budget appropriation bill in the National Assembly.

Besides all of these conditions, it is our intention and need to compile an opinion that is thorough and reliable from every aspect, and we will endeavour to do our best in order to accomplish it.

Looking back over the past years, it can be stated that the operational mechanism of public finances has been mostly determined by rigid political compromises since 1990. The planning process to date has become the decomposition of frame numbers developed in the course of negotiations, instead of a bottom-up, established planning procedure that is based on the performance of professional tasks. SAO has been continually criticised this planning method because – due to the narrow scope for action – a transparent, traceable planning work completely supported by calculations would have been of outmost importance. Nowadays a new approach is necessary in the determination of public tasks, in essential issues relating to the fate and future of the country. A new strategy and a reform of public finances are needed for the growth path, which provides a chance of catching up.

Since the beginning of its activities, SAO has been facing the basic problem of the indefiniteness of public tasks. This deficiency points beyond itself, since it has an effect on strategic thinking, funding and organisational structure as well. In almost all conclusions and recommendations of our audits, we call attention to these circumstances. Our recurrent experiences and the limited utilisation thereof call the

attention to the fact that it would have been necessary for a long time to determine the contents and scope of public tasks that can be undertaken and financed by the state.

The modernisation of the large community benefit systems also requires the thorough analysis of social relations and demands such an approach which points beyond the strict interpretation of fiscal aspects. Our audit experiences show that this approach has not prevailed so far. In the absence of the determination of public tasks that can be financed, another deficiency of our present budgetary system is that the quantity of funds allocated for certain tasks is, in fact, not ascertainable, because of the not adequately structured information system, while – due to the lack of performance indicators – it cannot be ascertained either, that to what extent and how effectively these expenditures are utilised.

Our experiences confirm the fact that a modernised and reliable planning system of the national economy is not only necessary from the aspect of the development of national economy and – within that – public finances. This is also important on the account of strengthening public confidence, so that state operation becomes easier to follow, more transparent and predictable.

It can also be attributed to these non-satisfactory conditions that in 2008, for example, considerable changes occurred in the budget appropriation bills within 30 days. The Government withdrew the budget appropriation bill submitted on 29 September. The new, partially revised budget appropriation bill was re-submitted on 18 October, while on 31 October an amendment was proposed as regards the significant revenues of the central budget, the reserves and certain chapter-managed appropriations. In the newly submitted – then in two weeks amended – budget appropriation bill incorporated all the problems, to which the SAO, unsuccessfully, called attention year by year.

Honourable Members of the Parliament,

We had to give an opinion on the 2011 budget appropriation bill in a time frame, which might have been now tighter than ever. According to the amendment of the Act on Public Finances effective from this July, in the year of the general elections, the Government submits the budget appropriation bill to the National Assembly one month later than the deadline set in the earlier regulation. However, this does not imply the prolongation of the planning process, and especially not the similar prolongation of the time available for the audit. We received the budget appropriation bill at the same time as the Government submitted it to the National Assembly, so, altogether, only four working days were available for comparing our experiences gained during our previous on-site audits with the bill submitted to the National Assembly.

Taking into account the time-limits mentioned and the scheduling of those government measures which determined the planning process, we performed our audit partially with certificates, reports called in from the organisations in charge of planning and partially by targeted on-site audits, and by auditing documents, which confirmed calculations.

The assessment of appropriations in the bill was encumbered this year too by the fact that the bill submitted on the amendment of certain acts substantiating the 2011 budget was not known at the time of the closing of the on-site audit. Thus, we had to face the inevitable situation again that our help provided for the legislative work of the National Assembly lags behind what, according to our intentions, would be necessary.

Hereby, I would like to call attention to the fact that we made a recommendation to the Government indicating that it is necessary to regulate the structure and content of the annual central budget and the tasks of the organisations participating in its development at the legislative level, including data provision for the State Audit Office of Hungary, too. I would like to remind the Honourable National Assembly of our earlier recommendation concerning the adoption of an act on public finances embracing the entirety of public financial management; within the framework of which we would consider the settlement of the above mentioned issues expedient.

During the preparation of the opinion on the 2011 budget bill, the STATE AUDIT OFFICE OF HUNGARY, contrary to preceding years, did not deal with the analysis of the macroeconomic path. It utilised materials prepared by the Fiscal Council. Let me mention that the tasks and operation of the Fiscal Council are regulated in the Act on Cost-efficient State Management and Fiscal Responsibility adopted in 2008; the Council constitutes an independent title within the chapter 'National Assembly', and its subsidy appropriation for 2011 exceeds HUF 835 million according to the budget appropriation bill.

A particular duality characterised the effectiveness of our work. On the one hand, it is a positive change that the part on which we could prepare our opinion increased within the total amount of the central budget. This can be attributed to the fact that the preparation of the planning process improved, so did the implementation of the tasks deriving from the circular of the Ministry for National Economy. At the same time, our effectiveness was influenced in a negative way by the circumstance that the substantiation and documentation of the appropriations did not improve compared to preceding years, neither did their justification by calculations. The reason for this is the uncertainty caused by Government decisions not yet adopted.

We could not completely judge, whether the planned tax revenues of the central budget are substantiated. At the same time, we considered it as a positive development that the proportion of tax revenues, on which we could not state an opinion, decreased from 96% of least year to 33.5%. In case of a considerable part of the tax revenues, due to the lack of background calculations, it was problematic to assess the soundness thereof. Besides, we deemed that almost half of the tax revenues can be achieved, but the amount of tax revenues considered medium-risk was significant, while the amount of those considered high-risk was smaller.

The direct expenditures of the central budget count for almost half of the planned total expenditures. We considered the direct expenditures as almost 100% substantiated. We raised objections concerning the substantiation of revenues and expenditures relating to public property as well; we found that a part of these was not substantiated, while a smaller part thereof represented high risk. We could not assess whether the revenues and expenditures of the National Land Fund were substantiated and could be achieved, since no calculations were available.

We deemed that almost 22% of the revenues related to public property were not substantiated; we considered the sales revenues amounting to more than 14% as high-risk.

The documentation regarding the substantiation of appropriations at the chapters of the central budget was not complete, although the ministries observed most of the regulations of the planning circular. Due to the limited time available we did not have the chance to examine the differences in the chapter-managed appropriations of the budget bill submitted, compared to those presented in the course of the on-site audit.

Compared to preceding years, the Government did not plan a significant modification in the structure of expenditures. Certainly, a shifting of stress was experienced on the account of the implementation of the announced economic and social policy objectives. Besides, no considerable rearrangements appeared on the expenditure side. The rate of reallocation, as well as the rate of expenditures and tax deduction decreased, overall, by 2 percentage points. I would like to emphasize that once the temporary fund-expanding effect of the credit institution annuity, planned as new tax revenue, however considered to bear high risk, and other crisis taxes evaporate, in the case of the delay in the substantive increase of revenues, in a few years' time, it might be necessary to do a comprehensive review of the structure of expenditures.

The state of the separated state funds, managing 3% of the expenditures of the central budget sub-system of public finances, is stable, its appropriations are in proportion with the tasks to be performed, and they are likely to be completed. At the Research and Technology Innovation

Fund, it poses certain risk, whether the amount of innovation contribution revenues can be effectuated, while the realisation of the expenditure side is endangered by the introduced freezing.

The social security funds manage approximately one-third of the expenditures of the central budget sub-system of public finances. We see that removing the members of private pension funds into the state system is considerably risking the break-even balance of the Pension Insurance Fund. According to the bill the deficit of the National Health Insurance Fund remains in 2011, and its rate, essentially, equals the expected deficit of this year. It is most likely that the funding of the Fund's disequilibrium can be ensured only through the central budget.

Honourable Members of the Parliament,

The overview of the risk factors relating to the funding of public debt is also part of giving an opinion on the budget appropriation bill. Following the adoption of the budget appropriation bill by the National Assembly, the planned scheme of funding public debt will be revised. While doing so, among others, the higher net funding request planned for next year, the changing saving schemes of the investors and the unfavourable tendency in the yields of the government securities market emerge as risk factors. Besides, the risks deriving from collateral obligation and the activation of guarantees bear an unforeseeable uncertainty factor.

According to the data of the Government Debt Management Agency, the planned gross amount of the debt of the central budget exceeds HUF 20,800 billion for 2011, which is 4.2% higher than the amount expected for 2010. The gross debt of the central budget next year in the proportion of the GDP will be 73.3%, contrary to the 74.1% expected by the end of this year. I would like to emphasize that in this relation the budget appropriation bill only states: 'the lowering deficit allows for the decrease of the debt ratio and promotes the improvement of the external equilibrium of the economy'. The mentioned favourable change in the gross debt ratio is only possible in case of a considerable increase of the GDP.

The quality of the financial management of local governments affects the quality of life of the local population in the most direct way. The planned rearrangements of the tasks by the Government concerning local governments are reflected in the available resources as well. Although the planned support of the local governments and the aggregate amount of the assigned personal income tax is 2.6% lower than in 2010, it implies the termination of the earlier tasks. The provision of funding for the tasks related to public employment through the Labour Market Fund, and the assignment of the burden of the income support to the central budget sub-

system can be considered such a correction, which – if taken into account – results in a 4.5% increase of resources.

In the 2011 budget appropriation bill we also experienced that an effort was made to fulfil the commitments taken up in the past period. Therefore, amongst others, the supplementary commitment of 2011 concerning the Metro Line 4, the refund for the local governments entitled to compensation in order to reduce the disparities of income and the effect of the increased demand for social services are reflected in the increase of the total amount of the personal income tax and state subsidies and contributions assigned to local governments subject to central regulation. It is a fair intention to offset the negative effects on the revenues deriving from the expansion of exemptions concerning the regulation of duties (abolishing inheritance duty), and from the annulment of communal tax of entrepreneurs.

Out of the two resources related to the central budget, the appropriation of the assigned personal income tax decreases by 7%. The local governments are entitled to the personal income tax declared two-years earlier, therefore the financial crisis beginning back then only appears in the revenues now. This, however, does not worsen the overall position of the local governments, as according to the established regulation, the state subsidies and contributions offset the shortage nation-wide.

There is no substantial change in the tasks and powers of local governments, merely small adjustments and simplifications improving transparency a little bit are planned.

The possibilities of own revenues are exhausting at the local governments, both those for cumulative and for operational purposes. This latter is also disadvantageous because now local governments and their institutions are not able to fund the increasing non-personnel expenses deriving from inflation that had not been supported centrally for years. At the same time, it can also be noticed that the utilisation of EU subsidies increases in this sub-system as well.

On behalf of SAO, we recommend the Government to review the gradually increasing tasks of local governments and the funding thereof, as well as to improve their conformity.

Honourable Members of Parliament,

Independence is an important value of the State Audit Office of Hungary. However, this does not mean indifference, the STATE AUDIT OFFICE OF HUNGARY, within the framework of its legal mandate, is responsible for the sustainability of the central budget, and the effective, regular and efficient spending of public funds. The STATE AUDIT OFFICE OF HUNGARY takes responsibility for stating, based on audit experiences, the

conclusions it reached, as well as the risks it sees, and where it deems correction necessary. On this basis, it shall make recommendations, suggest methods for situation analysis and for decision-making. Even if its conclusions report, in every case, on the past and present, they are about and directed towards the future.

Therefore, when giving SAO's opinion on the budget appropriation bill, our starting point is that the planning and adoption of the budget is not merely an annually repeated, mandatory technical task. The quality of the adopted document is such a constitutional issue that requires appropriate safety, responsibility and liability guarantees. This serves stability; this conforms to the interests of the state and the voters, and last but not least to the requirements of our EU membership. The related requirements of the Acquis Communautaire have to be met, the convergence criteria has to be fulfilled, and such internal proportions, and economic policy ideas have to be reflected in the individual annual budgets, that enable the country to comply with the seven-year Financial Perspective of the European Union.

We believe that the clear determination of tasks, transparent planning and a budget approved on the basis of target and performance requirements make performances more measurable. This way, not only the possibilities of accounting, analysis, assessment, and correction can be improved, but also those of auditing. The society gets more familiar with the operation of the state as well, which results in the strengthening of public confidence and a firmer government. The budget and the budgeting process that cover a longer period and consider future prospects as well, require and demand, conforming to the 'nature' of the market economy of today, the operation of a macro-economic financial planning system being more completely developed than the present one.

It is a firm intention of the State Audit Office of Hungary to think over the tasks relating to giving an opinion on the budget bill, so that the results of the performance of this legal task become more useful. This determination, in fact, does not only originate from intention to improve the process of giving an opinion on the budget appropriation bill, but closely relates to our experiences obtained in the course of the audit of the final accounts.

One of the greatest problems of the current practice is that final target figures of the budget are not yet available at the time of giving our opinion. Therefore, we came to the decision that, we will acquire a wider scope of information essentially necessary for giving an opinion during the year already.

Since the comparison between the entirety of earlier and new commitments and available resources is pivotal in giving an opinion on

the budget appropriation bill, we continuously assess the progress of commitments.

Although, for the time being, we already study the progress of commitments continuously, in connection with the audit of the final accounts, our aim is the establishment of a continuous monitoring procedure. We will elaborate the optimal methodology, even if internationally there is very little information of use available on the 'monitoring' type of activity and method performed in the course of the implementation of the audit of the final accounts.

According to certain examples, monitoring is entwined with a so-called 'continuous' or operational audit performed by the Supreme Audit Institution, which adjusts itself to the regular interim report submitted to the National Assembly by the Government. In the course of this audit, the audit institution examines whether the transfer of the budget items is complete and meets the deadline; and the how the budgetary resources are actually spend, compared to the appropriations approved. If irregularities occur, or there is a violation of the related law, the audit institution examines what lies in the background, and how irregularities can be eliminated.

Those audit institutions which perform operational audits, share the opinion that the results thereof confirm the necessity of the continuation and development of this type of work. Therefore, we examine whether, in the course of the audit of final accounts, the operational audit can be successfully applied in Hungary as well, in order to increase the efficiency of the budgeting process.

The success of the methodological modification of giving an opinion on the budget appropriation bill is affected by such external conditions as the Act on Public Finances, the Government Decree on the Rules of Operation of Public Finances, the Act on Accounting, the Government Decree on Specialties of the General Government Organisations Reporting and Accounting Obligations, which delimit the operation of organisations involved in budgeting and reporting. If necessary, we will make a recommendation on their amendment, too.

Honourable Mr. Speaker,

Honourable Members of Parliament,

I, hereby, thank you for your attention paid to the opinion of the State Audit Office of Hungary, and wish you success in your work in the course of the debate on the budget appropriation bill, so that you can pass a law on the 2011 Budget of the Republic of Hungary which facilitates the efficient utilisation of public funds by ensuring due conformity between the aims and possibilities.