

The presentation of the President of the SAO of Hungary at the XX INTOSAI Congress

Mr. Colleagues,

Ladies and Gentlemen,

First and foremost, I would like to welcome INTOSAI's initiative, whereby it has declared the promotion of the UN Sustainable Development Goals as a cross-cutting strategic priority of INTOSAI. This is fully consistent with the intention set forth in the Beijing Declaration. The 2030 Agenda emphasises that the accomplishment of the strategic goals is the primary responsibility of the member states. Consequently, all supreme audit institutions can primarily make their respective contributions to achieving the goals in their own countries and within the framework of their own mandates. It is under this premise that I wish to support the initiative that INTOSAI should elaborate a framework for evaluating the public finance management of member states, and based on this framework a comprehensive analysis should be made on the status of public finance management. I think this is also consistent with the objectives of ISSAI 12.

The theme paper rightly points it out that a number of SAIs have been already performing audits that may serve as a basis for developing a framework for evaluating public finance management. The State Audit Office of Hungary is one of these supreme audit institutions, therefore I would like to briefly share with you our related experience. I wish to focus on two elements in our audits that represent relative novelty from the aspect of the assessment framework to be developed.

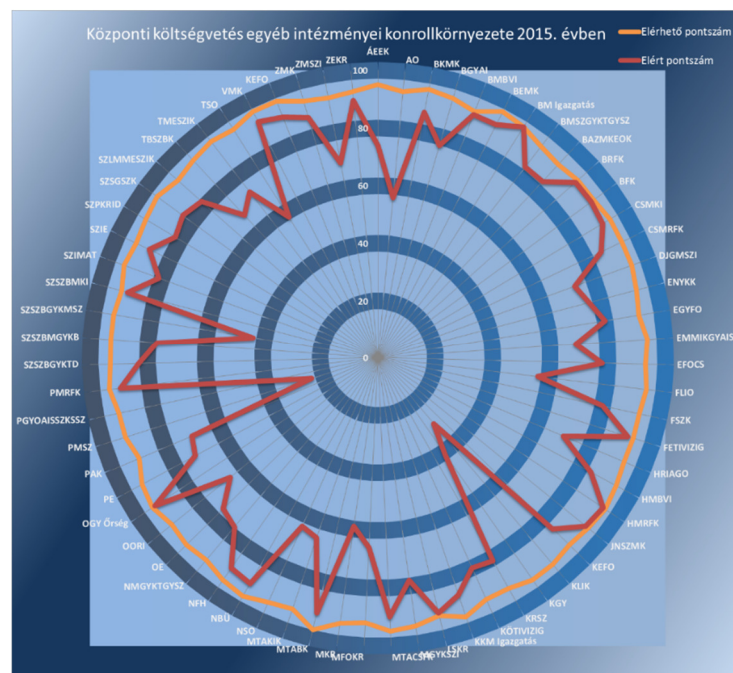
However, before I outline these elements, I wish to highlight two circumstances that confirm why the experience of the SAO is relevant to this discussion. The first is that in 2011, Hungary adopted a new Fundamental Law which sets out the following as a basic principle: "*Hungary shall observe the principle of balanced, transparent and sustainable budget management*". The second is that the aspirations set forth in the Fundamental Law were carried through into practical application. Since 2012, public deficit has remained below 3% of GDP each year, and the public debt-to-GDP ratio has been in constant decline since 2011.

According to the Act on the State Audit Office of Hungary, with its findings, recommendations and advice based on its audit experience, the SAO facilitates well-governed state operations. In line with the above, the SAO has been given extensive mandate to support sustainable fiscal management through its audit activities and related holistic analysis: the institution provides its opinion on the budget appropriation bill of the following year, audits the reliability of the final accounts of the previous year and every year performs several hundred audits involving budgetary organisations. The latter is made possible only by the standardised, modular auditing programmes developed by our organisation for the audit of budgetary institutions. The audits are carried out by selecting the relevant modules. I wish to highlight two of these modules: one developed for assessing the internal control system, and the other used for evaluating the establishment of integrity controls.

It is of significant importance in terms of the regularity and effectiveness of public finance management whether a given budgetary entity has established and actually operates the internal control system required by law. Hungarian legislation prescribes the application of an adapted version of the so-called COSO model. This model is also applied in a number of other countries as a decision was made at the seventeenth INCOSAI in 2001 that the INTOSAI guidelines on internal control standards would be updated based on the COSO concept.

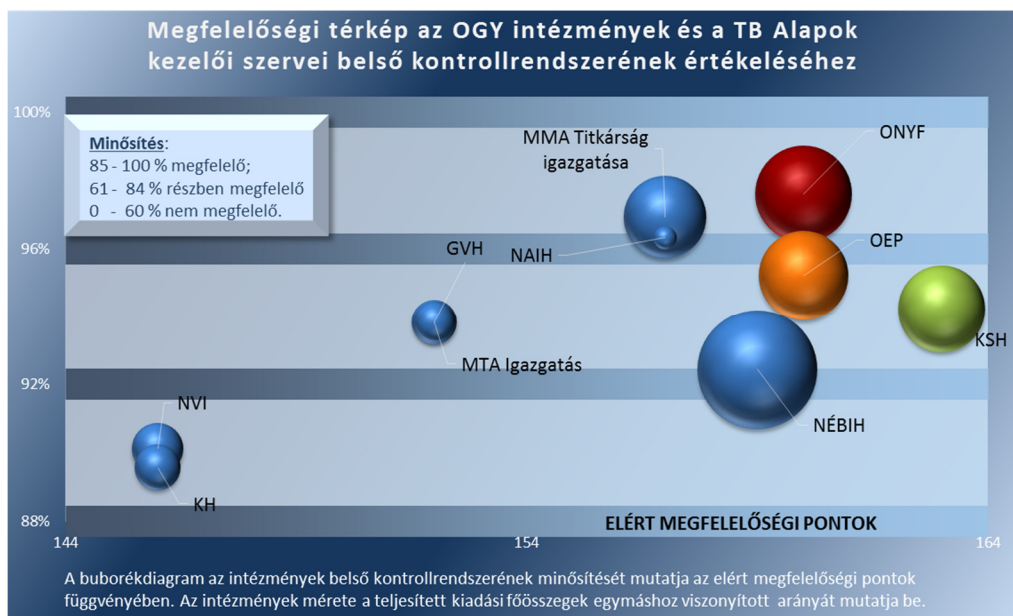
The establishment and operation of this system is audited by the SAO based on a certificate completed by answering almost 400 questions, and in certain cases the audit procedure is complemented by an on-site audit. The scores given are weighted based on the significance of the questions.

Based on the certificates provided to the questions, the auditors allocate scores to the answers given, and evaluate the compliance of the internal control system by pillars and as a whole. The internal control systems of the audited entities are easy to compare based on the scores achieved. Benchmarking can be made against the maximum number of points available, or against other audited entities. The next chart outlines the assessment of the internal control systems of a group of organisations. The yellow circle shows the maximum points available, while the red line indicates the scores achieved by the organisations.



Following the necessary adaptation, the method presented here might serve as a basis for the development of a standardised assessment system. The chart includes individual audited entities, however, the method might be transformed so that the lines classify the internal control systems established for the public finance management of individual countries.

It is quite unique that the SAO also audits the resistance of public bodies against corruption and fraud. This module was not developed by sitting behind a desk, but instead practical experience was embedded in our audit programme. The SAO has been performing questionnaire-based annual integrity surveys amongst public institutions since 2011. Based on the responses given by 3,000 institutions, it identified the activities that are most exposed to the threat of corruption, as well as the controls that are most suitable for reducing corruption risks. This method is suitable for comparing the corruption risks of certain public institutions to the level of establishment of the controls providing protection against such risks. This is demonstrated by the next graph.



On the one hand, the graph reveals which institutions have a low level of protection against corruption in the absolute sense. On the other hand, it also demonstrates that in the case of certain institutions the controls against corruption are not sufficient when compared to the high level of corruption risk applicable to them.

The related audit module is aiming at identifying corruption risks, and ascertaining whether the audited entity has established and now operates the controls vitally important for preventing and reducing corruption.

Our experience shows that this audit module is an effective instrument in preventing corruption. A similar module is recommended to be used by all SAIs. The standardisation of the module is made easier by the fact that INCOSAI is expected to adopt the ISSAI 5700 guideline for the audit of corruption prevention at this congress. Based on this ISSAI, a series of questions may be drawn up and used by all SAIs to evaluate the corruption risks of the audited public institutions and the controls used for the management of such risks. As a result, these questions may serve as a basis for assessing the resistance of public finance management against corruption.

At the end of my presentation, I wish to express again that the SAO is in support of the intention of INTOSAI to develop a standardised assessment module, and is pleased to share its experience with other SAIs participating voluntarily in the related efforts.

Thank you for your kind attention.