



ÁLLAMI
SZÁMVEVŐSZÉK

Innovation in the Audit of Sports Investments

5 years of pursuing innovation at the
State Audit Office of Hungary

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Motto

*„Modern societies take one single thing seriously: money. Democratic societies know one thing being even more serious: **public money**”*

Five years of innovation - SAO of Hungary

- I. Amendment to the Act on SAO passed in 2011 – new competences – companies with majority local government ownership – Audit reports in a new format
 - II. Strengthening international presence – Integrity Project – Integrity Survey extended on companies with public majority ownership
 - III. Main fields of local government audits
 - IV. 2016: auditing companies with majority local government ownership
 - V. Auditing asset management of local governments– audit of sports
 - VI. Utilisation – Self assessment
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I. General audit mandate of the SAO

Periodicity of the audits is laid down in Act on the SAO, or failing that by the **Head of the SAO**

Financial management of public finances, among this the financial management of local governments

Use of funds from public finances

Management of public assets

Final accounts prepared in relation to the implementation of the central budget

Taxation and other revenue collection activities of the state tax authority and municipalities as well as the activity of the customs authority.

Financial management of the Central Bank

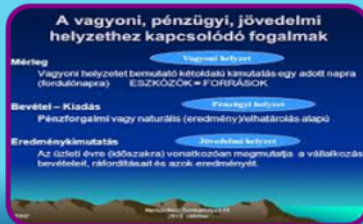
Financial management of political parties, the utilisation of the contributions to the groups of Members of Parliament

Utilisation of subsidies allocated from public funds to churches as well as to institutions and organisations operated by churches

Within its competence it may prepare **analyses and studies** assisting the Fiscal Council

System of auditing local governments

Among its strategic goals SAO of Hungary defined:



evaluation of the financial status of local governments;



detection of the related risks;



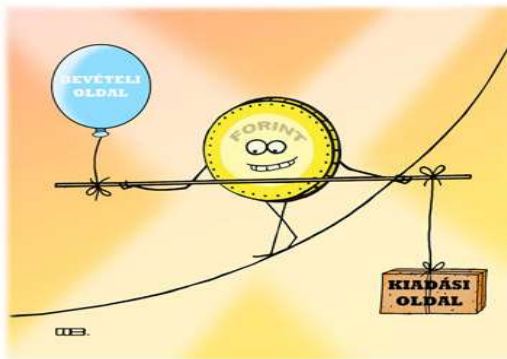
selection of audit sites on the basis of risk assessment.

Past 5 years - Audit of Local Governments in focus

Since 2011 the SAO conducted its audits of Local Governments through a **thematical and comprehensive** approach - on areas most exposed to risks such as asset management, financial situation, internal controls.

SAO audits assist Local Governments in the following ways:

To ensure financial
equilibrium



Improving the quality of
fiscal management,

„Az operatív gazdálkodási folyamatok menetében üres járatok vannak, és azok követik egymást, mely által nem volt biztosítva a szabályszerű működés, de annak személyi feltételei sem.”

Explore the occurrence of
manifest or hidden
indebtedness

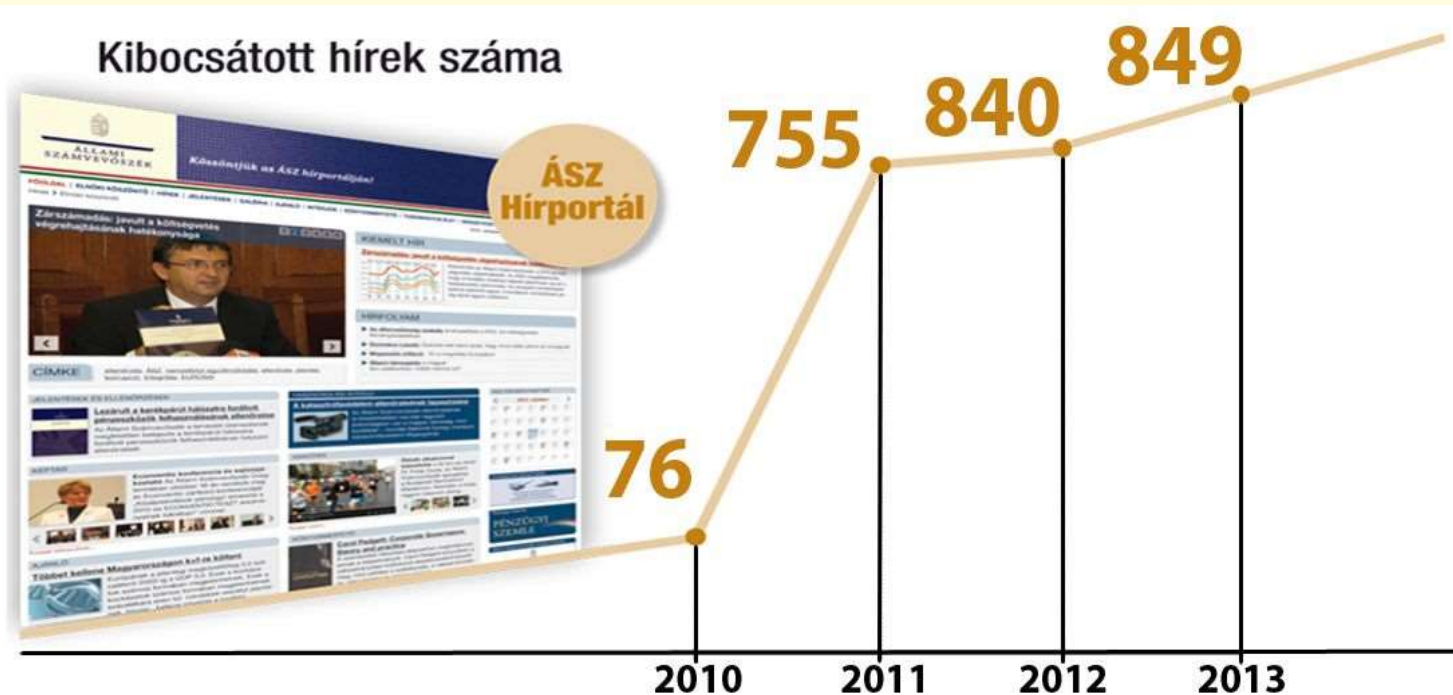


II. International engagement

- INTOSAI (methodology)
 - EUROSAI (leading Goal Team 1 on Capacity Building, innovation) - Conferences, seminars to promote new methods and projects – even more potential for the future
 - EU Contact Committee, V4+2
 - Bilateral relations, IDI
 - Integrity project
 - EURORAI
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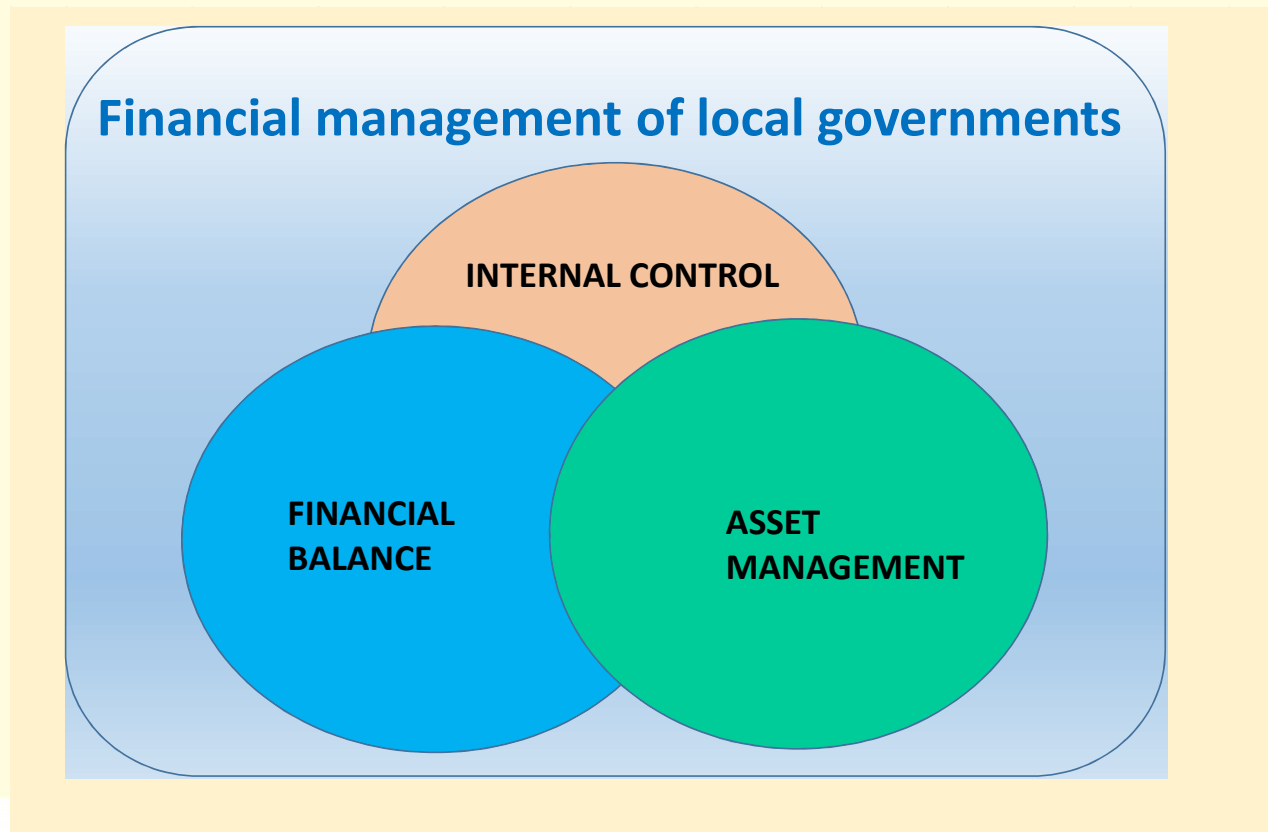
Transparency and efficacy

- All SAO reports are made public. SAO continuously informs on its activities via the SAO's own News Portal in Hungarian, English, German and French (<http://www.aszhirportal.hu/en>)
- SAO's transparency also has a dissuasive effect. News that cover SAO reports warn the users of public funds, that ultimately they will be subject to a SAO audit.

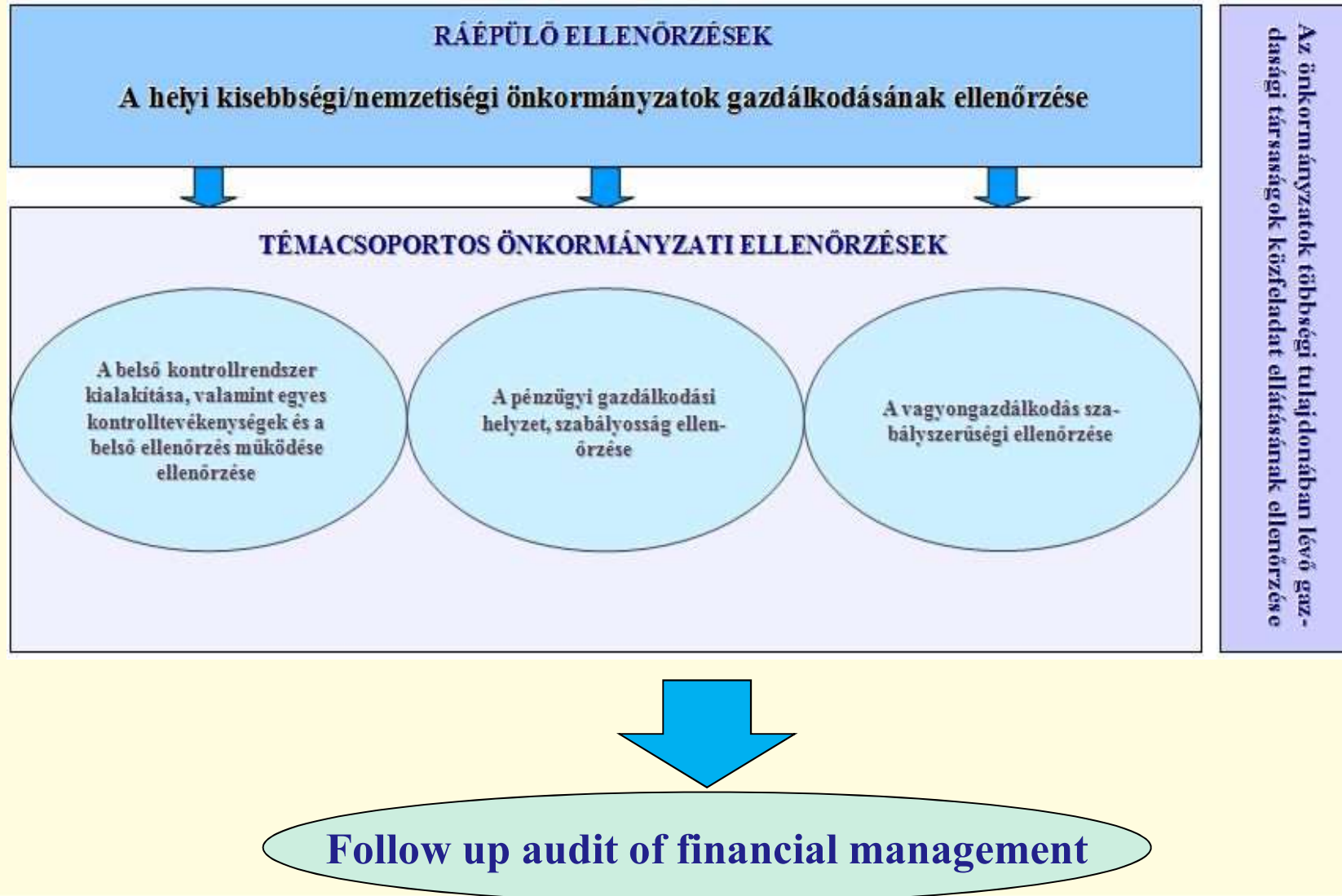


III. Main areas of auditing local governments

Auditing the fiscal sub-scheme of local governments is accomplished by auditing each of the three pillars below



Audit scheme – local governments



Integrity vs internal control

Not easy to make clear distinction

Internal control: system of hard control measures

Integrity: combined system of hard and soft control measures

Pointing in the same direction (properly regulated operation, transparency, accountability, prevention of fraud and corruption)

Objective: to ensure consistency between assessment of the two control systems

Integrity as a component of internal control audit

Integrity assessment is always connected to an internal control compliance audit

Results of integrity assessment are to be evaluated also in view of the results of the internal control assessment

In case internal controls are classified as „not satisfactory”, integrity controls cannot be qualified better than „low”

In case of controversial results (good quality of integrity and bad quality of internal controls or the opposite) possible reasons to be explained as far as feasible

5 years of innovation – Goals and methods in of the Integrity Survey

GOAL: To assess risks of corruption and existing level of controls.

SAO launched the integrity Project in 2009 funded by the EU, based on the Dutch approach.

The first two of the surveys in 2011,2012 were financed by the Project.

The sustainability period of the project lasts from 2013-2017 during which the Survey has to be conducted each year.

Results are comparable, the same methodology - fully mature by 2013 - was applied in 2014.

2015: Integrity Survey extended to companies with state majority state ownership

2016: Integrity Survey extended to companies with majority local government ownership

Integrity Seminar – utilisation of the surveys and studies

- March 2015 „Transparency and Integrity in the Public Sector” Conference, guest speakers from: Czech Republic, PRC, Netherlands
 - 2015 Szarvas: Integrity Seminar
2016 May: Study - Integrity Survey of state owned companies
 - 2016 Innovation: Integrity Survey is launched among local government owned companies
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Thematic group audits – an audit arrangement

Thematic group audits enable the audit of local government operations covering the most important areas, enabling comparison in many aspects. These are audits performed on the basis of uniform programmes, the methods applied ensure the efficient performance of the audits



Audit of the most risky areas: asset management, financial status and internal control systems, minority local governments, local government associations



Companies with majority local government ownership – enabled by the Act on the SAO since 2011

Innovative methods - CLF

New ways of organising audits



- Theme group audits
- Intertwined audits
- Distance audits

New methods of sampling and analysing

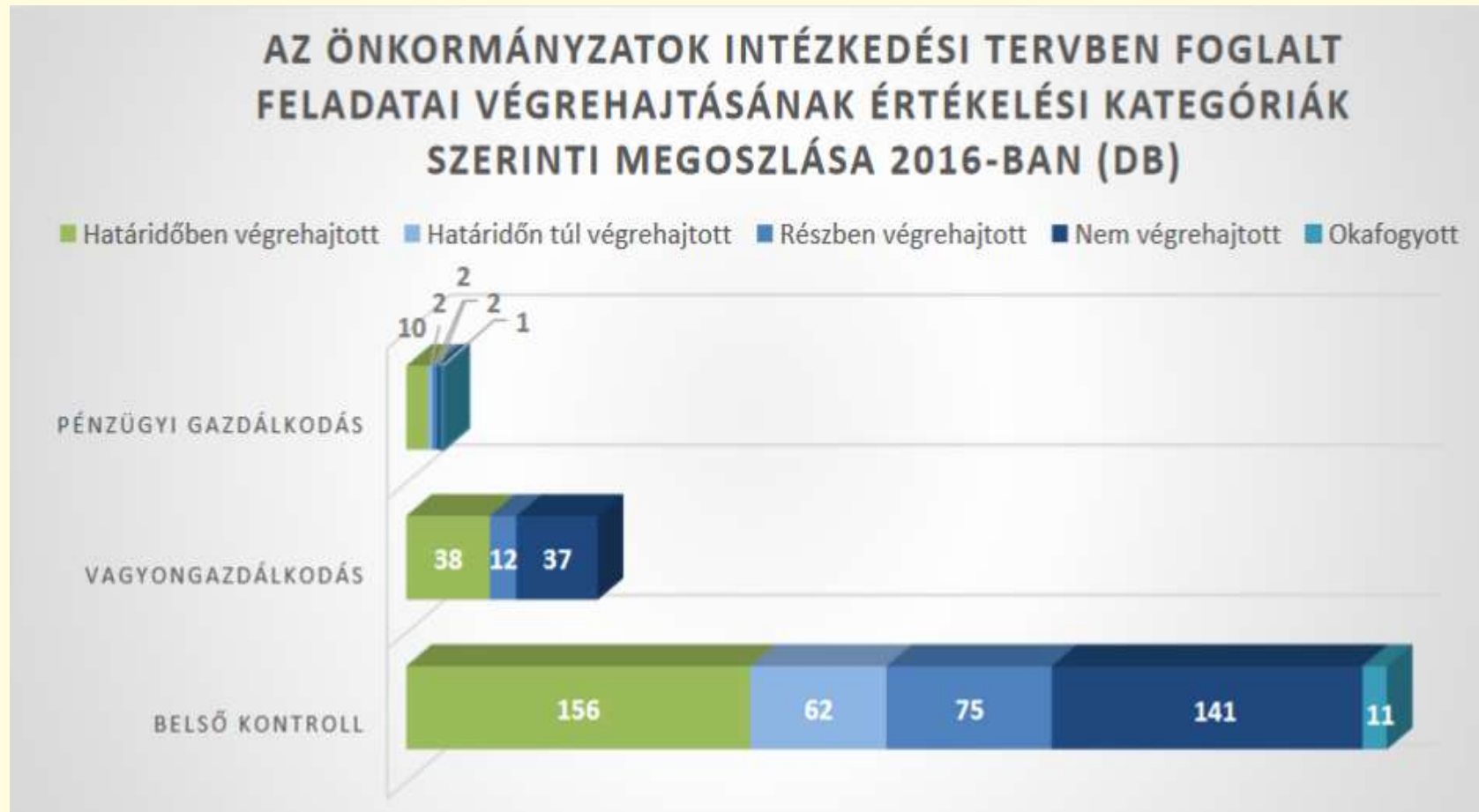
- Sampling adjusted to goals set
- CLF financial analysis
- Comprehensive analysis



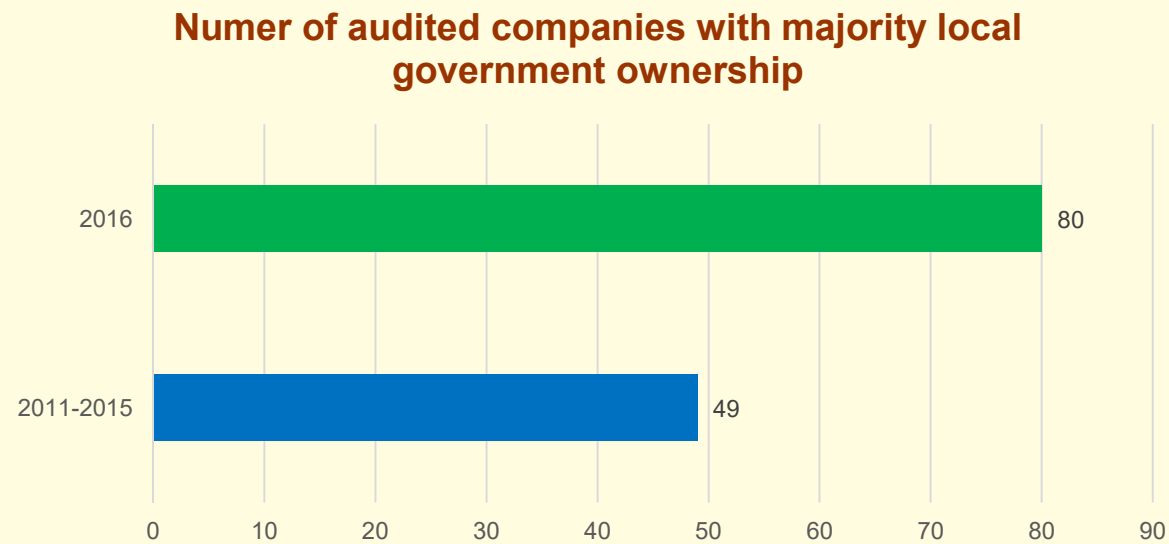
Local government audits in 2016



Implementation of tasks included in the action plan of local governments



Audit of companies with majority local government ownership



Audit competences - asset management

- According to the Act LXVI of 2011 on the SAO of Hungary as part of its audit of the management of national assets, the SAO shall audit the management of assets belonging to the scope of public finances; the financial management of such assets; such activities of economic organisations owned in full or in part by the state, or owned for the most part by local governments, that are aimed at preserving and increasing the value of such assets
 - The SAO is not an administrative authority: it does not enact binding resolutions and decisions
 - SAO audits are not a substitute for internal controls of the audited entity, merely a complement to that
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V. Auditing asset management of local governments

- Agreements above the net 5 million HUF (16,000 EUR) threshold value were made public, budgetary financial statements were failed to be made public
 - Some municipalities did have exclusive ownership on companies, many had a majority sharehold. The financial results of the companies was diverse - in some cases the municipality had to intervene
 - Internal controls usually did not support the regularity of asset management
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Experience on the audit of company with local government ownership in the area of sports investments

- Task performance related to the maintenance and operation of sports investments was elaborated in accordance with the legal regulations, ownership rights were executed in compliance with the legal regulations.
- The asset management of the non-profit organisation operating sports facilities was only partly regular due to the deficiencies of regulatedness and asset management.
- The settlement of revenue and expenditure related to the public task performed was handled adequately.
- The of the cost price calculation of the company was not in line with the legal and internal regulations.
- FINA World Championships 2017 Budapest.

VI. Utilisation of audit results

Obligation of the audited entity to act:

- 1 July 2011: the era of audits without consequences has come to an end

Direct value added:

- internal controls of audited entities/municipalities is better regulated and operated
- goals set by law can be achieved

Indirect value added:

- entities/municipalities not subject to an audit take on the „best practice“ → voluntary compliance
- The fact that SAO is strongly committed to audit internal controls
- The dissuasive effect of the number of thematic group audits as a result of risk based selection

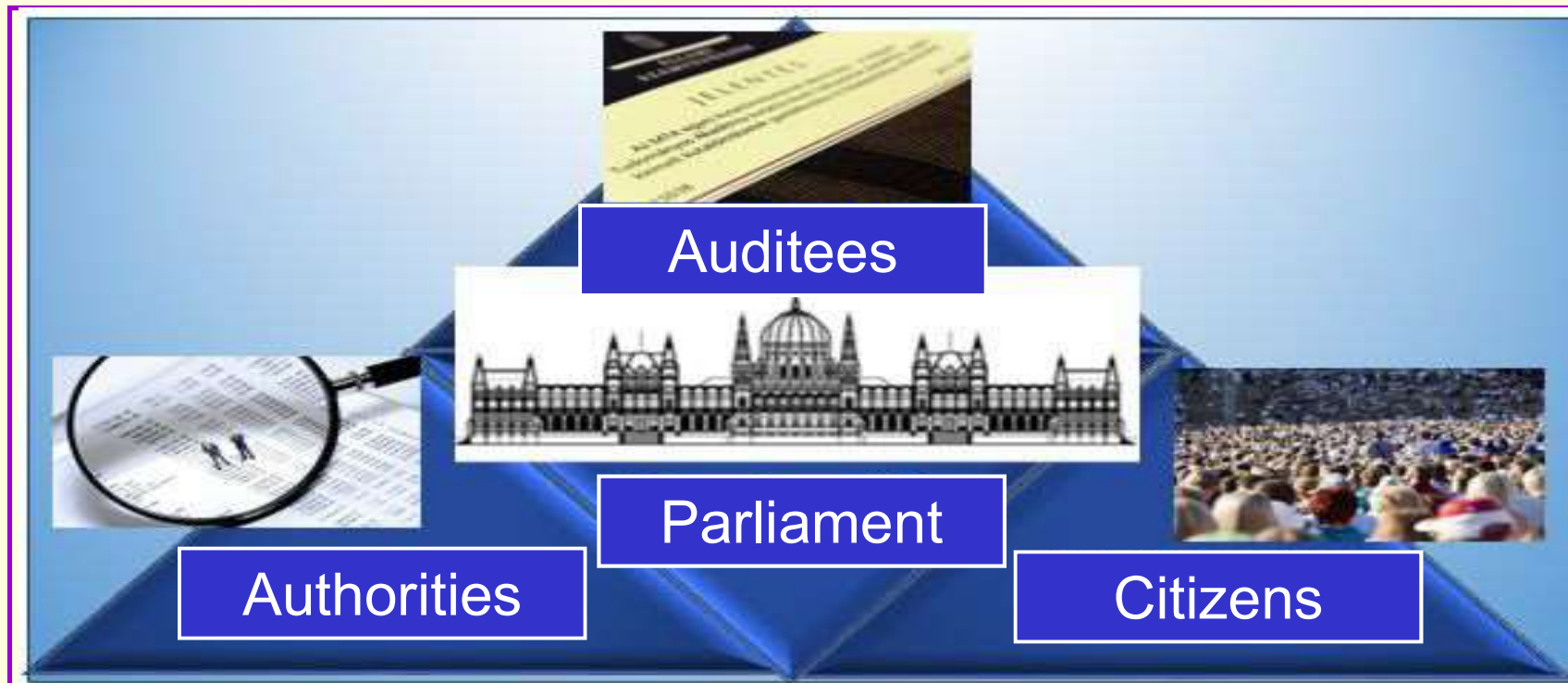
Further value added:

In the possession of great numbers of municipality audits the SAO may initiate an amendment of legislation



Utilisation of audit results – self assessments

The utilisation of the audits is realised on multiple levels: on the level of the National Assembly, the audited entities and the citizens. Thus, this is all achieved by a reflected audit planning, recognizing the international standards, implementing an approach that focusses on utilisation and with continuous innovation.



Utilisation of Audits – Self Assessment

