



Állami Számvevőszék
State Audit Office of Hungary

Public Debt Audit in Hungary

International Conference

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Characteristics of Public Debt in Hungary

Hungarian public debt is the total payment obligation of the sub-systems of public finances based on debt:

- total of credits
- total of issued government securities



Characteristics of Public Debt in Hungary

The sub-systems of public finances:

- ❖ central budget,
- ❖ social security funds,
- ❖ separated government funds,
- ❖ local governments.



Characteristics of Public Debt in Hungary

- ❖ From these four sub-systems debt may arise only in the central budget and at local governments, because the debt of the social security funds and of the separated government funds – if there is any –, is listed within the central budget.
- ❖ Basically the central budget and the deficit of social security funds affect the increase of the present debt.
- ❖ Furthermore the established debt is influenced by exchange-rate fluctuations, the trend of the money stock of the state, the change of equalisation reserves of the National Bank of Hungary, and privatisation revenues.



Legal Provisions Concerning the Trend and Management of Public Debt

- ❖ The definition of public debt and the framework of its management are regulated by law.
- ❖ The concerned Act determines the organisation responsible for registering and managing debt in the case of the central budget; however in case of the sub-system of local governments every local government (approx. 3200) is responsible severally for registering and managing debt.
- ❖ The trend of public debt has to be presented annually to the National Assembly, broken down to sub-systems, during the submission of the final accounts. The presentation is the responsibility of the Government.



Auditing Fields of the Trend and Management of Public Debt

- ❖ According to the Act the State Audit Office (SAO) (may) audit the credits and debts of both the central budget and the local governments.
- ❖ The comprehensive audit of the debt of the central budget and the management thereof and the audit of the debt of local governments are carried out every 4-5 years.
- ❖ The audit of the activity and debt of related organisations in every 4-5- years serves the transparency of processes and the exploration of tendencies.
- ❖ The financial audit on the data fixed in the Act on Final Accounts and submitted to the Parliament, thus on interest expenditures and capital transactions is carried out annually since 2003.



Methods of Audit

- ❖ Primarily the official documents signed by the auditees form the basis of the audit (e.g. contracts, documents on the issue of securities, reports, extract of ledgers, certifications containing analytical data).
- ❖ Secondly information is gained from discussions and consultations with the audited organisations, but the audit findings have to be supported by documents also in these cases.
- ❖ In the framework of audits the SAO cross-checks the data submitted by different organisations (related ministries, organisations designated to manage debt, authorities registering data).



Audit Criteria

Comply with legal provisions

- ❖ Is the process of registering and managing debt regulated appropriately from the point of view of legality, efficiency and expediency?
- ❖ Are the responsible organisations determined definitely?
- ❖ Do the sharing of tasks among the organisations promote the transparency of debt management?
- ❖ Do the organisations participating in debt management involve resources regularly?



Audit Criteria

Performance indicators:

- ❖ In Hungary in order to reduce debt burden an indicator system is in force, which is reviewed annually concerning the debt of the central budget.
- ❖ The activity of the debt management organisations is classified by:
 - the holding of interest rates under the planned level
 - the calculability of the market value of public debt
 - the concentration of foreign debt, the trend of foreign exchange rates
 - the composition of fixed and variable interests and the duration of public debt.
- ❖ The role of pre-repayment in cost saving is examined particularly



Audit Criteria

Performance indicators:

- ❖ Liquidity management activity of the organisation including:
 - the observance of provisions concerning the treasury account
 - the balance fluctuation
 - the sufficiency of information available for the management organisation.
- ❖ The role of factors influencing the change of debt amount including:
 - the difference between planned and actual deficit of the budget/social security funds
 - the justification of assuming credits by the central budget
 - the trend of investment expenditures within the factors playing role in the emergence of deficit



Audit Criteria

Answering these questions helps to decide whether the activity of organisations participating in debt management met the requirements of the state/government.



Utilizing the Reports

- ❖ In Hungary SAO makes recommendations to the auditees and the organisations supervising them, and finally to the Government and the Parliament.
- ❖ The SAO cannot force the addressees of the proposals to implement them, because it does not have the right to impose sanctions.
- ❖ The audits being repeated regularly reveal also the fulfilment of proposals made by the previous audits. In case the proposals are not implemented, the SAO raise the attention again to the necessity of the implementation.



Utilizing the Reports

- ❖ In case of suspicions of violating the law or committing crime SAO is obliged to take actions. Such actions have not been taken so far in relation to the audit of the public debt management.
- ❖ The findings and proposals are subject to frequent consultations. The SAO carries out discussions and consultations with the organisations managing the debt of the central budget, with the concerned ministries (Ministry of Finance, Prime Minister's Office), with the Treasury, which manages state funds and keeps the state's account, and also with the National Bank of Hungary.



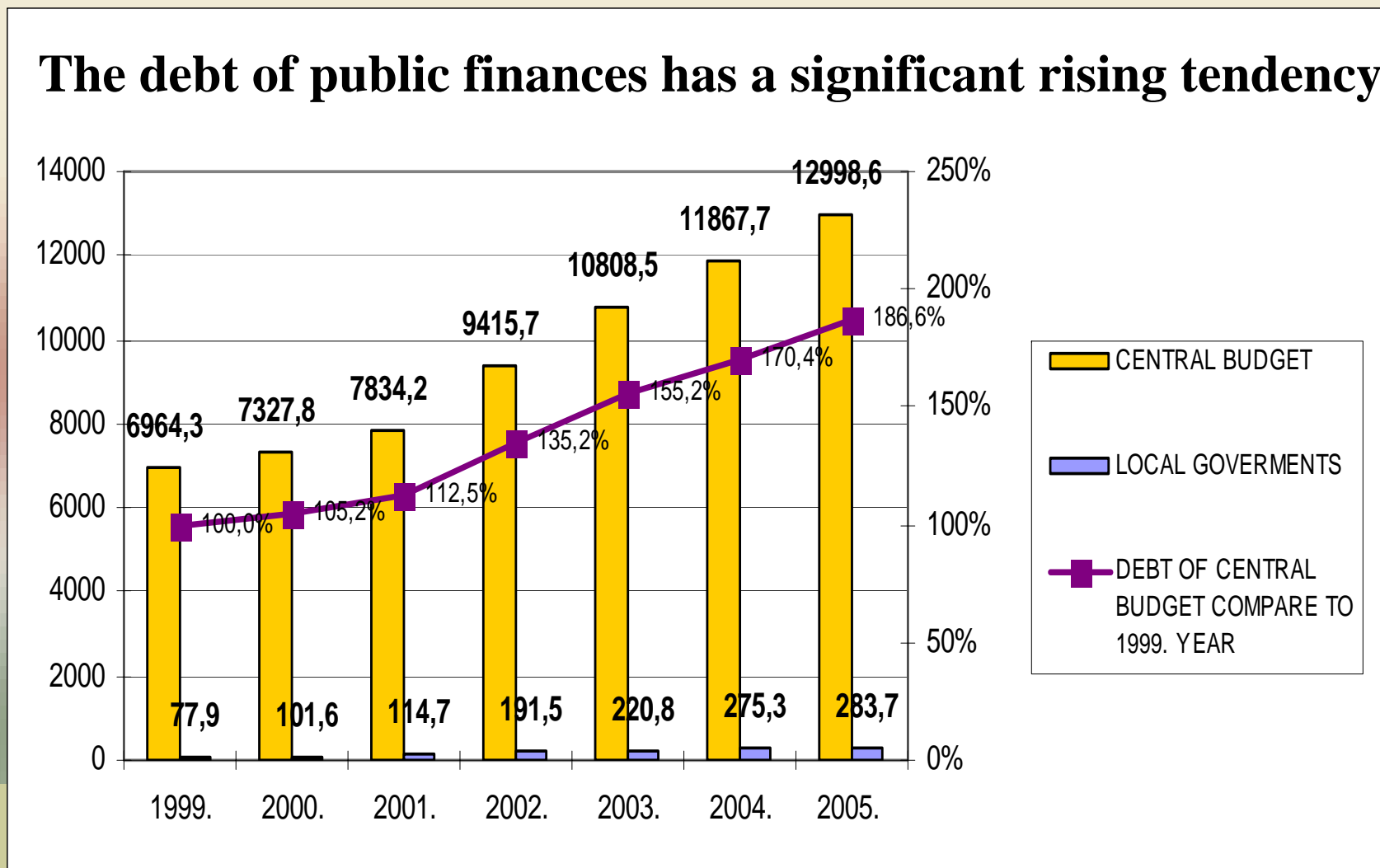
Utilizing the Reports

- ❖ Following the consultations the audit report containing findings and proposals is published by the SAO according to the Act on the SAO.
- ❖ Report is sent to the MPs, to the highest dignitaries, and it is available for the public at SAO's website.



Main Findings of the Report finalised in March 2006

The debt of public finances has a significant rising tendency

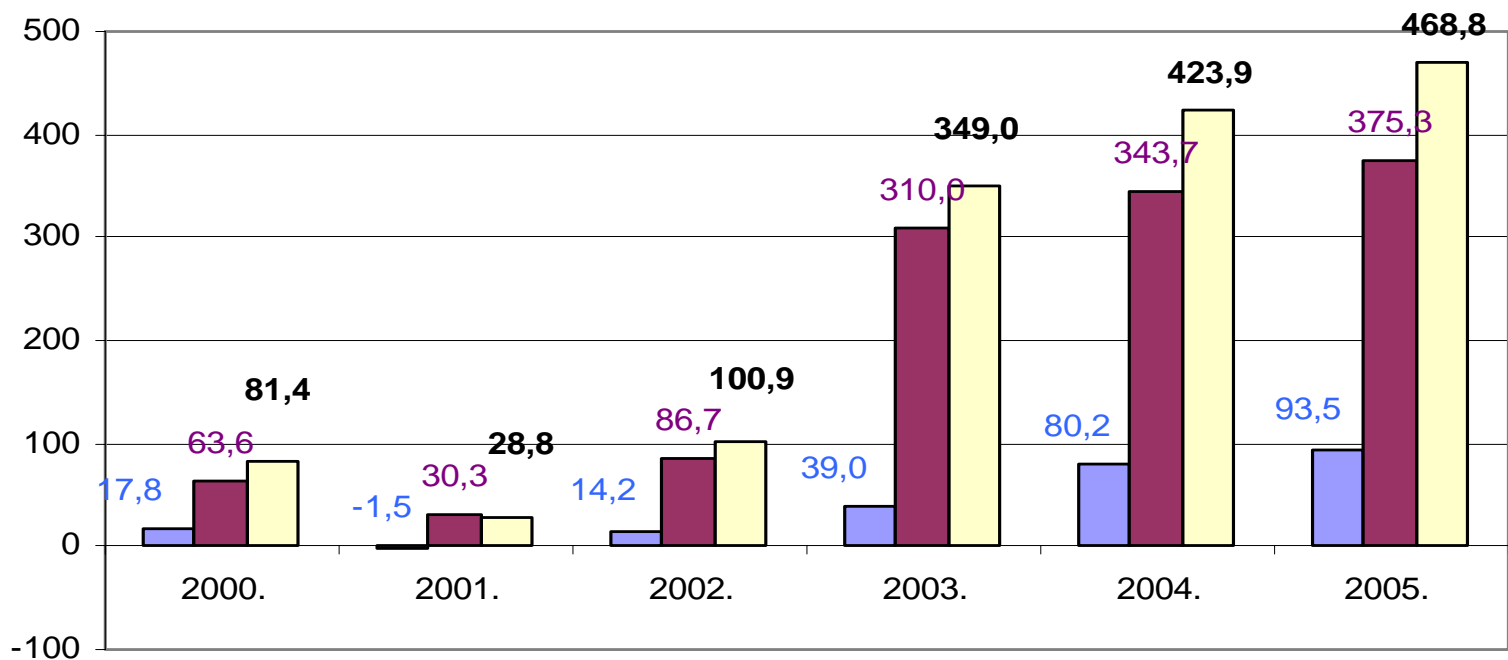




Main Findings of the Report finalised in March 2006

The debt of social security funds

Bill HUF

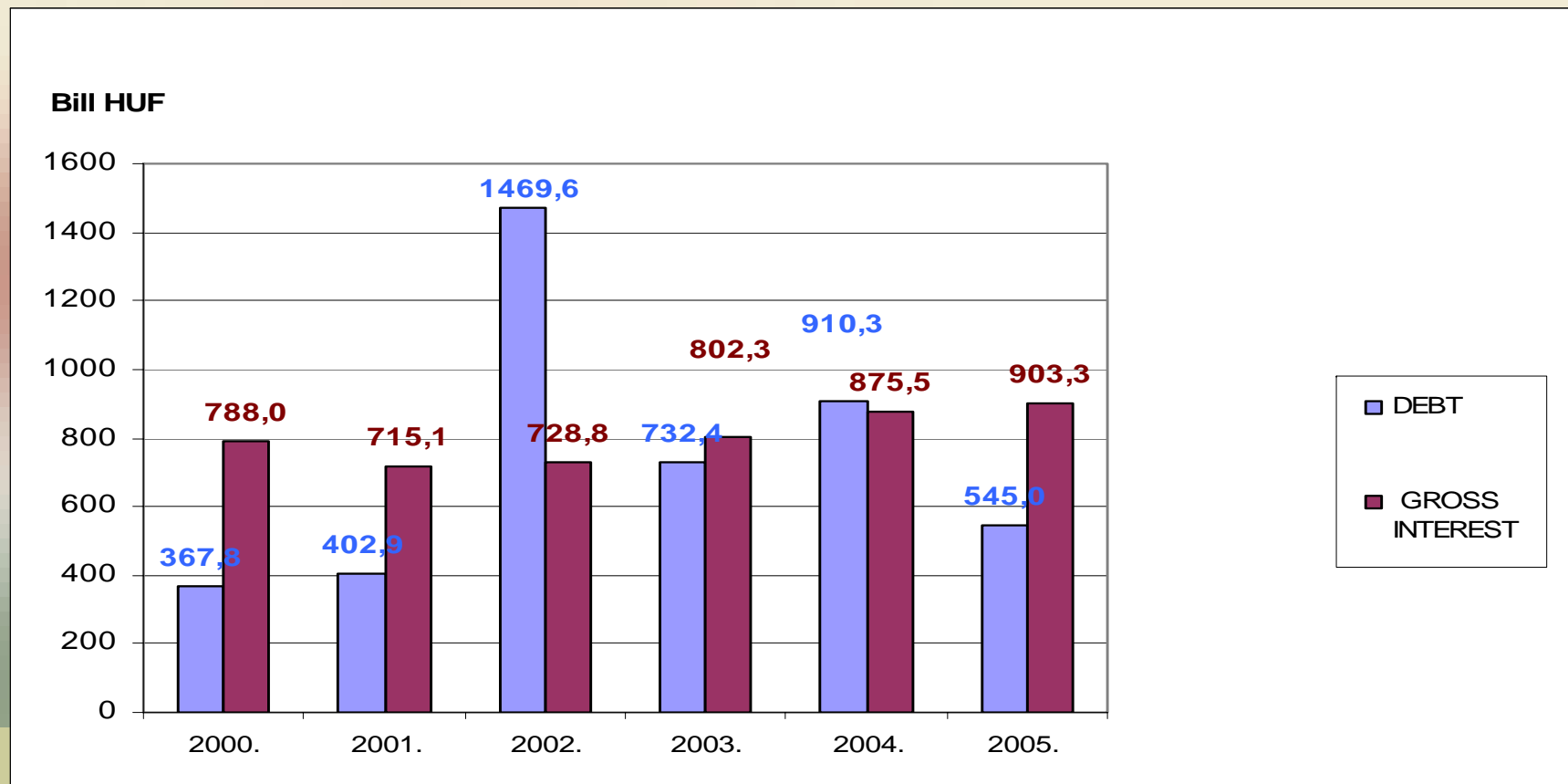


■ Balance of Pension Funds ■ Balance of Health Funds □ Total debt of Social Security Funds



Main Findings of the Report finalised in March 2006

The interest expenditures related to the debt raise the deficit, which narrows the room for manoeuvre of the budget.





Main Findings of the Report finalised in March 2006

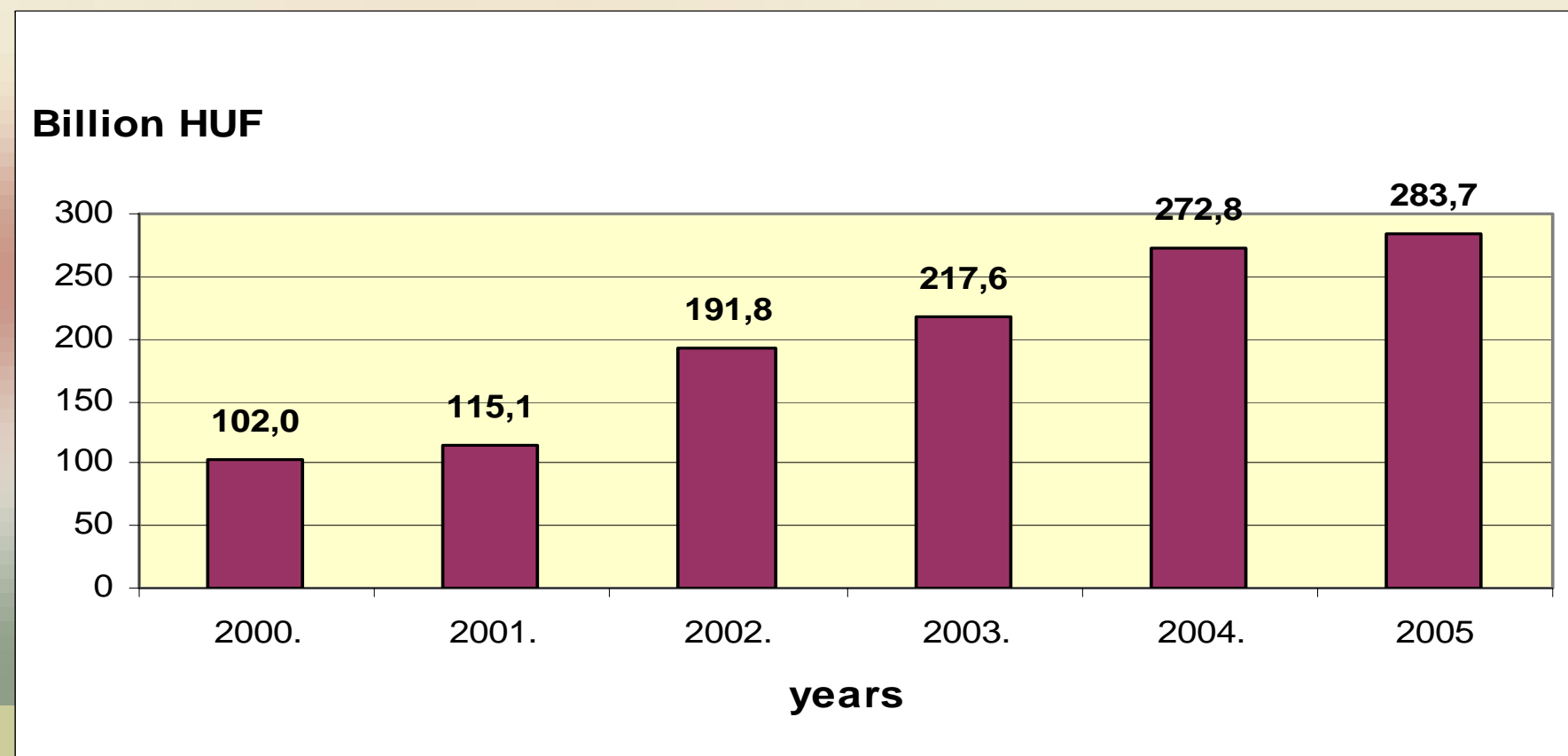
Other factors of debt increase:

- ❖ Effect of foreign exchange rates (+ or -)
- ❖ Payments of privatisation (-)
This means that privatisation revenues did not serve for the redemption of the present debt, but less resources had to be involved.
- ❖ Increasing the reserves of the National Bank (+)
- ❖ Advancement from EU Emoga (+)



Main Points of the Report finalised in March 2006

The debt of local governments is also rising, but it takes only 2-3% of the public debt.





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**THANK YOU FOR YOUR
ATTENTION !**