

Mihály T. Révész

Establishment and Early Operations of the State Audit Office of Hungary

SUMMARY: Re-established in 1867 by the Austro-Hungarian Compromise, parliamentarism institutionalised the powers of the legislature to exercise control over the government in Hungary as well, and Parliament established the State Audit Office to carry out the duty of economic control. However, Act XVIII of 1870 codifying the State Audit Office contained ambiguous provisions on its legal status, specifying only arithmetic control as its task, as a result of which the operations of the Office, from the beginning to its discontinuation, were described in contradictory terms.

KEYWORDS: parliamentary system, government, budgetary rights, final accounts, financial control

JEL CODES: H50, H61, K100

A historical study aiming to explore and overview the origins of the genesis of the State Audit Office of Hungary, and the reasons for and circumstances of its emergence, could hardly be a self-serving undertaking.¹ It was in circumstances and conditions which were entirely different from those previously prevailing that our forbears called for the post-Compromise establishment of a central financial control authority intended for cooperation on final accounts effecting budgetary rights. The Austro-Hungarian Compromise of 1867 imposed limitations on Hungary only in terms of state sovereignty. Its internal autonomy by no means prevented the new organisation of power on this side of the Leitha from making increasingly complete arrangements based on the rule of law. In designing the structure of civic constitutionalism as conceived by *Ferenc Deák*, prominence was given to the liberal val-

ues of the rule of law. First the settlement of relations between Pest and Zagreb, then the separation of public administration and the judicature, and legislation to provide for the co-existence of municipal authorities and the responsible government were measures adopted in the spirit of this effort. At the same time, focusing on the legislative function and constructing the role to control executive power were also tasks of utmost importance. It was in such a context that measures had to be taken to establish an autonomous and independent body responsible to the Parliament for the financial supervision of the Government's operations, an organ which was referred to by most speakers in preparatory debates as the State Audit Office.

The rest of this paper undertakes to outline the control structure of the state in the age of dualism, thereby providing insight into the hidden nooks of how the Hungarian state of the Monarchy operated, which, to date, have not been adequately represented in historiography.

email address: reveszt@vnet.hu

THE THEORETICAL AND HISTORICAL FOUNDATIONS OF PUBLIC CONTROL IN HUNGARY

The Austro-Hungarian Compromise of 1867 turned the Hungarian state into a constitutional monarchy, in which legislative powers were exercised jointly by the head of the state and the supreme representative body, the Parliament, while the Monarch provided for execution by means of the Government appointed from the majority party in Parliament. However, the Government was responsible to both the Monarch and the legislative body.

Nevertheless, the head of the state had a wide range of supervisory powers over all government and municipal bodies. As part of those powers, when requested or instructed by the Monarch, government bodies were obliged to provide information on any case they were considering; in addition, the King's commissioners had authority to review each case. However, the Government's activities involving audits of subordinate bodies were much more extensive than the control and supervisory powers conferred on the head of the state, although the Government itself also discharged its duties under control.

The duty to control the Government was assumed by the Parliament, which, as an organ of sovereign will and resolution, made sovereign representations of will, and as the supreme organ of state decision-making, it also had to judge the executive power in terms of "the conformity of its operation with the sovereign will of the state elaborated by the legislative body".²

It is a commonplace and therefore uncontested argument that in a civil state, parliament is supposed to regulate the "course of government" at the highest level. In connection with that task, it passes bills, draws up the state budget, and controls its implementation as well as the entire activity of the Government. The

legislative function of exercising control over the Government is concerned with the use of the funds with which the Government has been entrusted on the one hand, while on the other it supervises the entire activity of the Government. "The Parliament's right to control the executive power is a necessary consequence of it being the body of the state which elaborates sovereign will."³ The purpose of the right to exercise political control cannot be other than to maintain and ensure public administration bodies' compliance with the legitimate situation established. Specifically, control by Parliament primarily concerns whether the Ministry enforces the laws, and, second, whether or not it violates any of the laws which it enforces.

In addition, perhaps before the political review is possible, a major mandate of the legislature is to draw up the state budget. This involves the right of the Hungarian legislature to "determine foreseeable public expenditure, and empower the Government to collect revenues."⁴ In addition to that empowerment, the Parliament is entitled and obliged to control whether the Government observes the provisions for revenues and expenditures. The legal institution of budgetary rights not only represents the right of the Parliament to adopt the Act on the State Budget each year, but, necessarily, also involves the right of the Parliament to regularly control whether the Government indeed manages public finances as intended by the Act on the Budget.⁵

The first provisions laying the foundations for the budgetary rights of the Parliament of Hungary were made in Article 37 of Act III of 1848, which set forth that "the Ministry shall annually present the Lower House with a statement on the incomes and needs of the country, and its retrospective accounts of the incomes which it has managed, for examination and approval by Parliament." The right of the legislature to control the budget was therefore

established by this cardinal act of the Revolution. However, in the period 1849 to 1867, the Act could naturally not be enforced.

FINANCIAL CONTROL IN 1848–1849 AND IN HUNGARIAN NEO-ABSOLUTISM

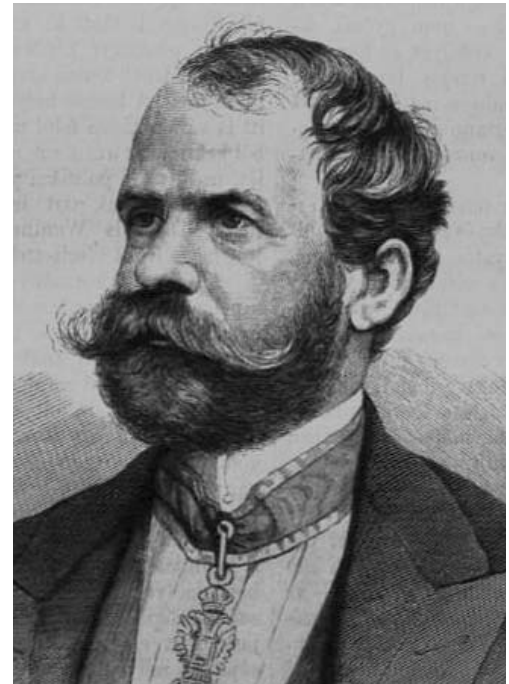
For months, the state fighting a war of independence was prevented from the financial control of its finances, which had been entangled and far from clear as a result of the upheavals in domestic politics. The most important political decision in this respect was not made until March 1849, when, with a view to enforcing Article 37 of Act III of 1848, the House of Representatives established the National Accounts Committee, which was charged primarily with the financial control of the Government and the review of final accounts, but also had powers to examine a wide range of aspects of how finances were managed. Constant and increasingly adverse changes in the military situation, the uncertainties in the course of government owing partly to such changes, and the shortage of time all contributed to the institution's fall into oblivion following the suppression of the war of independence.

In the era of neo-absolutism, the accounting and control systems of Austria were identical to those of Hungary, which had been deprived of the sovereign existence of its state. The supreme control authorities in these two countries evolved along lines that were different from those marked by the powers of control authorities in the other European states. From 1854 to 1 January 1867, the Austrian Oberste Rechnungskontrollbehörde was responsible for control at the highest level in both countries. As the Compromise approached, in Austria the Oberster Rechnungshof took over the control of public accounting and treasury management. At the same time in Hungary, the first step in

the establishment of an autonomous public control authority was the order of 3 December 1867, “approved with supreme resolution”, pursuant to which the State Accounting Department was set up as part of the Ministry of Finance. The organisation was tasked with the overall control of financial and economic activities, which culminated in the drawing up of the public final accounts.

The 1867 treasury statement,⁶ and the final accounts for 1868⁷ and 1869⁸ were already drawn up by the State Accounting Department, which, being a department of the Ministry of Finance, was of necessity subordinated to the Government and thus, as *Kálmán Ghyczy* aptly pointed out, “only kept books but did not audit, only took account of recognised income and expenditures, but had no powers to audit the superior Government for the compliance of income and expenditures with the budget and other legislation.”⁹

Conversely, owing to its large number of representatives, the ultimate organ of budgetary control the House of Representatives was unable to adequately exercise rights concerning final accounts. Thus, in its discussion of the 1868 final accounts on 12 November 1868, the Financial Committee of the Parliament was also of the view that “any examination of public accounts could successfully be effected by a supreme State Audit Office rather than by a parliamentary committee, and the mandate of the latter ought to be restricted to the review and judgement of the accounts prepared by the



WENINGER VINCE (Executive official at the Ministry of Finance in Hungary and subsequently in Vienna at the joint Ministry of Finance)

supreme Audit Office, and of the report presented by the same.”¹⁰ Subsequently, measures to establish such an authority were taken both by the legislature and the Minister of Finance. During the first session of the Diet of 1867–1872, *Gábor Várady* submitted a bill concerning the “establishment and powers of the State Audit Office”¹¹, which was referred to the Financial Committee on 16 October 1869. Later, on 16 November 1869, then Minister of Finance *Menyhért Lónyay* submitted a bill concerning the establishment and powers of a “supreme national Audit Office.”¹²

ESTABLISHMENT OF THE STATE AUDIT OFFICE OF HUNGARY

The 19th century saw the beginning of a new era of control as certain states underwent constitutional transformation in the aftermath of the French Revolution, and the budgetary rights of parliament were recognised in virtual-



LÓNYAI MENYHÉRT (Minister of Finance, subsequently Prime Minister in 1871–1872)

ly every country in Europe. As an additional consequence, control by the legislature was extended to the entire financial management of the Government: “... budgetary rights would be incomplete, since a vote on the budget will only represent control over the Government and the management of public finances if Parliament is empowered to examine and determine subsequently whether the budget has been implemented as intended by the Act on the Budget.”¹³

As we have seen, owing to its organisation and structure, Parliament was unfit to exercise the full scope of control over the Government in its entirety. All the more so as control could not be restricted to the mere control of compliance with budget appropriations, but “the requirements for administrative control ought to be enforced to their full extent, i.e. the concern of control ought to be whether the Government has complied with the financial laws and regulations applicable to the management of public finances in the collection and use of public money.”¹⁴

This important task could therefore not be resolved successfully by either the Parliament or its committee, as doing so required constant, planned and deliberate work. All this clearly called for the establishment of an independent and responsible public authority, which was resolved in Act XVIII of 1870.

PARLIAMENTARY DEBATE ON THE ORGANISATION AND POWERS OF THE STATE AUDIT OFFICE OF HUNGARY

Legal historiography can take a variety of paths in undertaking to explore the always current tasks of creating and improving the rule of law, thereby focusing its investigation on the precursors of individual institutions and the forms in which those institutions were realised. It could embark on accurate dogmatic analysis, applying an engineer’s precision to weigh the mechanism of each authority or principle. It could also present the contemporary professional audience with archivalia on the institutions and offices that once carried significant weight. There is also a third path, which hides the most detours and stumbling blocks in combining the first two approaches. As part of such a brief report as this, the application of such a method could appear to be excessively trying. An attempt should still be made to recall the

parliamentary debates on the Audit Office and then to summarise initial experience with its operations, in the hope that the classical thoughts and opinions of the 19th century are also relevant today.

The Parliament started its detailed debate on the Audit Office Bill in February 1870, as part of which Central Committee referee *Kálmán Széll* pointed out the necessity of the new institution, while also outlining its main tasks and certain disputed passages of the Bill. The referee argued for the justification of the Audit Office, insisting that “the Parliament’s complete, exhaustive and secure exercise of its right to examine accounts as provided for in the 1848 Acts requires that it reserve the right to examine the accounts, while giving the mandate of detailed control, which it could hardly carry out gradually and continuously to the last detail by itself, to an entity which provides sufficient guarantees in terms of both statutes and powers that it will fulfil its purpose true to the task which is so great and so important...”¹⁵

Then at the very beginning of his promising political career, *Kálmán Széll* underlined that the institution to be established could undertake no less than to “exert control over Ministers’ audit offices charged with primary control and accounting service, as well as over any other authorities that deal with public finances.”¹⁶

The Central Committee held that in order to fulfil this task, the Audit Office should be placed in the system of public organisations following principles which ensured that its operations served its intended purpose. The referee classified those principles into two main groups: “One is that the law should give this institution such independence as, in coordination with administrative government, will provide all the necessary means and conditions for its free operations to control the administrative authority; on the other hand, law should harmonise the institution with the existing struc-

ture of the state, the great framework of parliamentary government.”¹⁷

Following the referee’s speech, the minority opinion of the Central Committee was presented by *Gyula Györffy*, who took sides with the other opposition representatives addressing the debate to challenge the proposition of the Government. Below, the key measures proposed are explained by discussing the passages of the Bill that provoked the most intense debate.

Article 1 of Act XVIII of 1870 on the establishment and powers of the State Audit Office provides that “a State Audit Office is to be established to control the management of public assets and debt,” and the revenues and expenditures of the state.

However, it was not only for pragmatic reasons that such legislation was incorporated into the *Corpus Juris*. Legislators were also motivated by compliance with requirements of principle and the rule of law. “One of the principal requirements of constitutionalism is that the Parliament should be able to control expenditure of public revenues as intensively as possible, and that in such work, it should receive the most effective assistance available from the supreme control authority in charge of control.”¹⁸ As a guarantee of effective and genuine assistance, it was considered vital that the State Audit Office should be organisationally independent of the Government.

This requirement is set forth in Article 2 of the Act, which provides that the Audit Office is independent of the Ministry in its powers.

As regards its organisational structure, the State Audit Office was almost identical to ministries. Its staff consisted of its Chair, the Auditor General, the required number of auditors, and auxiliary personnel, complete with attendants (Art. 3). The salary of the Chair could reach that of a Minister.

Article 4 of the Act lists conflicts of interest. Those engaged in substantive work for the

Audit Office were not allowed to be members of either house of the Parliament, or to be relatives of Ministers or one another as provided for in law. The Chair and other members of the institute were not allowed to hold any other public or private office or any post or position that involved accounting or pecuniary liability, with the sole exception of natural and statutory guardianship, and were not allowed to participate, either directly or by means of relatives or other intermediaries, in the management or administration of businesses which were accountable to the state or were in any aid or contractual relationship with the state (Art. 5).

The Chair of the Audit Office was appointed for life by the head of the state at the initiative of the House of Representatives, from the three persons designated by the Parliament, countersigned by the Prime Minister.¹⁹ The Chair of the Audit Office worked independently of the head of the state and could not be dismissed or instructed by the latter, and was personally liable for any default or unlawful action which he committed himself or of which he was aware but which he failed to bring before Parliament. The Chair was personally liable for the management of the Audit Office, and could be held accountable by Parliament in the same way as Ministers.

The Audit Office was in charge of keeping the so-called state ledger, the accounts of which corresponded to the structure of the state budget. Article 13 of the Act was designed to ensure the coordination of central and sectoral control, providing that “each Ministry shall submit monthly to the State Audit Office, for the purposes of compilation and control, the accounting statements for both its own audit office or department and such authorities subordinated to it as are granted independent remittance rights.”

The Audit Office was responsible for the organisation and execution of control and record keeping in all sectors of public adminis-

tration. In this regard, it verified whether all accounts had been properly documented, whether remittances had been made in compliance with the Act on the Budget, and whether expenditures had exceeded the permitted level. In pursuit of the tasks outlined here, the Audit Office had powers to carry out ad-hoc examinations of the administration of Ministers’ audit offices or departments as well as other public authorities with independent remittance rights, their accounts of public money and materials, and any documents evidencing revenues or expenditures, giving prior notice to the Minister concerned. In the event of any irregularities, the Audit Office could ask the competent Minister for information, and if it was not satisfied with the information received, it forwarded the information with all the documents of the case to the Council of Ministers, which adopted a written resolution on the issue.

As mentioned earlier, the powers of the State Audit Office included the control of public debt. On the one hand, the Audit Office controlled whether public liabilities were adequately recorded, and on the other, “whether the commitments of the state [were] met in terms of interest payment, principal repayment and creditor insurance with respect to debt and any liability guaranteed by the state.” With a view to the adequate discharge of that control function, the supreme control authority was empowered to request information and statements from the Appropriations Department of the Ministry of Finance.

The passages cited so far from the Bill of Act XVIII of 1870 did not provoke a major dispute when it was considered in Parliament. However, in the debate of subsequent provisions, sharp differences emerged between the majority of the House and opposition. The opportunity was first offered by Article 21 of the Bill, which empowered the State Audit Office to draw up quarterly statements on all

of the audits it carried out and present those statements with comments to the Council of Ministers. The Bill also proposed requiring the Government to respond to the Office's positions by means of written resolutions.

Critics of the text found insufficient guarantees for the independence and autonomy of the organisation to be established. Members representing a minority opinion within the parliamentary committee preparing the Act called for "assurance that the Chair of the State Audit Office could communicate with Parliament directly." In that regard, the solution proposed by the majority that the reports of the control authority were "to be presented to Parliament by the Prime Minister, [was considered] inconsistent with not only the spirit of the Bill, but also with its purpose."²⁰

The minority position also argued that "where, as a result of its audit, the State Audit Office finds that in certain sectors of public administration, expenditures have been made in excess of the amounts permitted in the Act on the State Budget, it should not only present its statement and comments thereon to the Council of Ministers, but also submit the same to the House of Representatives."²¹ An immediate report to the House of Representatives would have been required in the event of any significant discrepancy.²²

The proposed amendment was not carried in the plenary meeting of Parliament. Although effective control and a review of the Government's economic activities would require the control authority to have a wide range of powers and communicate directly with its principal the Parliament, the Government and the majority supporting it found it both convenient and sufficient that the Audit Office should communicate with the Parliament only through the intermediation of the executive power.

The relationship of the Audit Office and Parliament significantly varied depending on the manner in which the final accounts edited

and compiled by the supreme control authority were to be presented to the legislature. This issue was at the heart of the most heated debate both in the Central Committee in the preparatory phase, and in the House of Representatives. One of the authors of the minority opinion, Gyula Györffy pointed out: the purpose of the Act was inconsistent with the provision that "until 1 September of each year, the State Audit Office shall draw up the final accounts for the previ-

ous year to compare the accounts with the budget adopted by legislation for that year, and submit the same with comments to the Council of Ministers. The Prime Minister shall immediately present to Parliament the final accounts, the comments of the State Audit Office and the relevant resolutions of the Council of Ministers."²³

Undoubtedly, the main shortcoming of this contested solution proposed in the Bill lies in its loose wording. Namely, the text failed to set a deadline for the Government to present the final accounts to Parliament. Codifiers apparently had not considered "the possibility that the Government, for any reason, might not present the reports of the Audit Office for a longer period."²⁴

Termed "swift" by *Antal Csengery*, the opposition called for amendments to the text aimed at addressing this shortcoming. Those speaking for the opposition proposed to reword the last four pertinent lines of the draft. In their view, the Government ought to have provided an



CSENGERY ANTAL (Chair of the Standing Financial Committee)

opinion on the report of the Audit Office, with the entire documentation including the final official response subsequently presented to Parliament “by the Speaker of the House of Representatives by mid-September at the latest.”²⁵

Undoubtedly, adopting that amendment would have made the Audit Office more independent of the Government. Conversely, Article 22, as adopted and explained earlier, imposed considerable restrictions on the autonomy and responsibility of the State Audit Office. Its autonomy suffered because “if the State Audit Office were to [present its proposals] to Parliament only through the intermediation of the Ministry rather than directly in its own right”, exposed, as it were, to the Ministry in terms of procedural law, this, as contemporary critics held, would give the latter “a wealth of opportunity to make its supremacy felt.”²⁶

However, the governing majority insisted on the original proposal and put forward the counterargument that if the State Audit Office were to present the final accounts to Parliament, then the Ministry would be subordinated to the State Audit Office. This argument, lacking both grounds and detail, clearly illustrates how the Ministry refused to support the wording of an arrangement that would have allowed stricter and more effective control of its operations.

This fact is also outlined in a contribution by *Pál Szontágh*: “A veritably monolithic work appears to me, and I shall not attempt to explain it; a researching jurist or an author writing about the history of the Hungarian legislature might reveal, in due course, why the order of logic suddenly falters between Articles 21 and 22, why close communication between Parliament and the State Audit Office is feared.”²⁷

Following a prolonged debate, the proposed wording of Article 22 was also passed in Parliament, although only by a slight majority vote, bringing the consideration of the Bill to a close without much of a tempest.

EARLY OPERATIONS OF THE STATE AUDIT OFFICE

Established pursuant to the Act, the State Audit Office had its temporary procedures, which were based on the regulations of the discontinued State Accounting Department, approved by the Monarch on 14 November 1870, and thus work commenced in early 1871. The 1870 final accounts were already drawn up by the Audit Office, which also made subsequent assessments of the 1867 “management accounts” and the final accounts for 1868²⁸ and 1869.²⁹

The Audit Office’s report presenting the 1870 final accounts³⁰ offered detailed coverage of public finances, the management of public assets and debt, and findings on accounting. Not only did the report pay attention to the strict control of the financial management of the Ministry and to giving Parliament sufficient grounds for political control through the compilation of various items and the disclosure of data, it was also critical of the Government’s actions on a number of points.

In its examination of the chapters and headings, it indicated the major deficiencies found with certain ministries’ “handling of their budgets.” As part of its overview of the financial management of the Ministry of Public Works and Transport, it noted, *inter alia*, the following: “The Ministry only met expectations with respect to road construction to the extent that the appropriation made was used by it for the purposes set; its operations in water construction are already less fruitful as the appropriation made for emergency works in particular remained almost entirely intact; its savings against the appropriation voted for railway construction are harmful in terms of both the national economy and simple finance.”³¹

In its assessment of the fiscal operations of the Ministry of Defence, the report took the opportunity to highlight the factors that

empowered it to control the contents of the financial management of the state. “The State Audit Office is authorised, indeed, obliged [...] under Act XVIII of 1870, and in particular under subsection 17(4) of the ‘temporary procedures’ introduced with supreme approval, in addition to the arithmetic examination of accounts and accounting documents, to consider [...] the much more important question of whether or not the Ministry has exercised due care in the disposal of its expenditure appropriations, and if not, how costs could have been restricted [...].” “The State Audit Office,” the institution argued with considerable conviction, “understands its powers to include not only an assessment of whether or not a particular item is legitimately covered, that being the first and easiest of the tasks which it is obliged to carry out, but is also mandated to judge whether costs are necessary and expedient, and comply with the requirements of reasonable economy.”³²

Three months later the Council of Ministers submitted comments on the first conflict-provoking report by the Audit Office³³, and presented to Parliament the “findings of the Audit Office concerning public finances and public assets and debt.” The report by the Council of Ministers begins with the statement that it “only discusses and expresses an opinion on those proposals of principle which the State Audit Office makes in the general part of its report.”³⁴

By challenging its general proposals of principle, the executive power of Pest launched an offensive against the powers of the Audit Office to exercise substantive control. It did so with a view to relegating the supreme control authority to a body of inspectors whose primary focus was arithmetic and administrative. To ensure its success, the Council of Ministers stated: “From the whole spirit of Act XVIII of 1870, but in particular from Article 14 thereof describing the powers of the State Audit Office

in respect of administrative control and records, it clearly and unmistakably appears that the law has conferred only the right of control on the State Audit Office, and the scope of such right is strictly defined in subsections 14(a)–(c) of the said Act.” For that very reason, “when, on page 12 of its report, in its assessment of the manner in which the Ministry of Public Works and Transport handled its budget in 1870, the State Audit Office passed judgement on the actions of that Ministry [...], it went, in the opinion of the Council of Ministers, beyond the powers attributed to it by the said Act. To pass judgement on the actions of the Ministry, whether in approval or condemnation, is the right of the legislature, which has not conferred such right upon the State Audit Office.”³⁵

Leaving the terrain of denial, the cabinet advanced its argument and pointed out: “The scope of control ought to be limited, and under Article 14 of Act XVIII of 1870, is indeed limited to the State Audit Office observing and disclosing whether the Ministry has exceeded the appropriations voted in Parliament for a particular purpose, whether it has expended such appropriations to the purpose voted in Parliament, and whether in doing so it has complied with the formal requirements of the accounting system, and presenting to Parliament the deficiencies found in that regard and any explanations obtained. Anything beyond that claim lies within the powers of administration and ought not to be dealt with by the control authority.”³⁶

In the Ministry’s view, the extensive interpretation of the powers of the Audit Office could not be deduced from section 17(4) of the referenced ‘temporary procedures’. Namely, the passage in question provides that “in addition to arithmetic examination, a review of accounts and accounting documents [the State Audit Office] ought to consider in particular whether the measures concerning the manage-

ment of state assets and revenues, including the use of expenditure appropriations comply with the laws and other applicable regulations and the requirements of reasonable economy, and whether the Ministry has exercised due care in the disposal of its expenditure appropriations, or how costs could have been limited.”³⁷

However, in citing this fairly unambiguous text, its restrictive interpretation must have been of considerable difficulty. It is hardly any wonder that the cabinet’s argument faltered at this point, and pointed out, not very convincingly, contradicting both common sense and the rules of grammatical interpretation: “It is not entirely possible to construe this Article of the temporary procedures to obtain the meaning which the State Audit Office seeks to give it. Not even this Article of the temporary procedures allows or orders the State Audit Office to become engaged in the administration of individual Ministers by means of advice or judgement.”³⁸ In its comments presented to the House of Representatives, the Council of Ministers insisted that the final decision on the issues that had arisen was the domain of the legislative body.

However, Parliament took a quite long time to decide. Long years passed before the Final Accounts Committee of the House of Representatives presented its opinion, otherwise irrelevant to the merits of the case, on the summary reports of the Audit Office.

Namely, legislation failed to resolve the conflict of principle that had evolved between the Audit Office and the Government. Although the Final Accounts Committee applied great care and precision in controlling the various accounts and calculations, it did not express an opinion on the very essence of the issue, the powers of the Audit Office, pronouncing: “At this point, the Final Accounts Committee shall not engage in either a discussion of the difference of principles that has arisen between the Council of Ministers and the Audit Office con-

cerning the powers of the latter, or in the interpretation of the relevant provisions of the Act cited, to the extent that it will be most pertinent to subject this question to proper and thorough discussion and decision-making when the House of Representatives elects to consider the accounting system of the State and in connection with that, the Bill on regulating the procedures of the State Audit Office.”³⁹

It is to be noted, however, that even the Act regulating this latter question failed to provide for the dispute.⁴⁰

However, the House of Representatives itself remained non-committal, considering and approving the 1870 final accounts with a substantial delay, on 7 May 1875.⁴¹ In turn, the Government and individual Ministries understood the silence to mean that the State Audit Office was, now with the implied consent of the legislature, a body of inspectors mandated for mere arithmetic control.⁴²

SUMMARY

This brief outline of an analysis highlighted the phases of the establishment of the State Audit Office, the central control authority of the Hungarian state in the era of dualism, and the key moments of its initial operations.

As we have seen, parliamentarism, re-established by the Compromise, institutionalised the powers of the legislature to exercise control over the government in Hungary as well, and Parliament established the State Audit Office to carry out the duty of economic control.

However, from our overview of the heroic age of Hungarian financial control, it appears that the State Audit Office, in the first phase of its operations discussed here, was not capable of satisfactorily discharging the duty it had been assigned by Parliament.

In search of the causes of substantive failure, it is concluded that the Achilles heel of the

operations of the supreme control authority was the unsettled legal status that was handed down to posterity by the compromise embodied in Act XVIII of 1870. As we have seen, the Audit Office was harmonised with the existing structure of the state so that it was not made completely independent of the Government. This thesis appears irrefutable even if account is taken of the fact that Act XVIII of 1870 separated the institution from the Government in organisational terms. It should be seen, however, that progress was made only in comparison with its predecessor, the State Accounting Department, which was previously supervised by the Minister of Finance. Namely, the Act called the independence of the new control authority into question by preventing its direct communication with the House of Representatives.

The State Audit Office as the supreme control authority was only allowed to present its reports and comments to Parliament through the Government and its head, and not directly.

An even more significant deficiency of the Act was that it failed to set forth express and clear provisions to ensure the right of the Audit Office to the substantive control and judgement of the Government's economic and financial operations. In the absence of such provisions, the organisation's operations and thus Parliament's powers to control the bodies which disposed of public money were mostly formal, and, accordingly, had limited effect. In that light, it is not surprising that the initial operations of the Audit Office were far from a resounding success, although it needs to be added that in addition to the reasons explained, effective work was also hindered by deficiencies in organisation and administration.

Partially deficient operations are also explained by the fact that the legislature itself had failed to recognise the mission of its control authority, or more likely, a majority in Parliament had not realised the political significance of controlling the Government elected

from its own members. The governing party representing the parliamentary majority advocated the same interests as the Government elected from its members; thus it obviously did not think it important and, in particular, politically desirable to rake over the mistakes and deficiencies in Ministries' fiscal management, or that the Audit Office should inform the public of more than sporadic corruption and explicit abuse. Doing so would have allowed opposition to step up its criticism of the Government, and would have given unintentional support in the fight of parliamentary opposition against the majority.

The foregoing will presumably go some way to clarify the fact that following the Compromise, the "discussion of the long unsettled public finances" was delayed for more than five years. And that delay was the most compelling evidence that central state control was insufficient and essentially formal.

Yet, even after the period discussed here, the State Audit Office failed to carry weight as a control authority, despite the fact that its name was changed under Act IV of 1914 to "Royal Hungarian Supreme Audit Office". Yet, the very purpose of that Act was to increase the authority of the Audit Office. Legislators themselves admitted: "To date, attempts have failed to make the public aware of the true status and mission of the State Audit Office. Even most official circles are ignorant of the purpose and nature of this authority, despite its 42-year existence. Article 1 is intended to change this situation, which is both awkward and detrimental to the operations of the authority, providing for a change to the name of the Audit office."⁴³ Despite the new Act and the formal settlement of the issue which it represented, the prestige of the Audit Office was not improved substantially, since the very essence, the independence of the Audit Office from the Government, remained unaffected throughout the civic period.

NOTES

- ¹ For more details, see the author's paper *A központi állami ellenőrzés szervezetének kialakulása Magyarországon 1867 után* [Evolution of the Organisation of Central State Control in Hungary after 1867] (Budapest, 1971), and also *Adalékok az Állami Számvevőszék múlt századi történetéhez* [Contributions to the 19th Century History of the State Audit Office of Hungary], by the same author. In: *A számvevőszék (Tanulmányok, külföldi törvények)* [The State Audit Office (Papers and Foreign Laws)], Budapest, 1989. Ed.: Dr. Péter Timoránszky, also *Az Állami Számvevőszék felállítása és működésének kezdetei* [Establishment and Early Operations of the State Audit Office of Hungary], In: *Jogtörténeti Dolgozatok* [Papers in Legal History], Győr, 2000, pp. 7–25, László Patzner: *Legfőbb Állami Számvevőszék 1870–1949* [Supreme State Audit Office 1870–1949], In: *Magyar Közigazgatás* [Hungarian Public Administration] 1990.2. p. 164 et seq., György Horváth: *Az Állami Számvevőszék történetének tanulságai* [Lessons from the History of the State Audit Office of Hungary]. *Pénzügyi Szemle* [Public Finance Quarterly], 1991 Third Issue, p. 231 et seq., Kinga Pétervári: *Az állami számvevőszék magyarországi története* [The Hungarian History of the State Audit Office], In: *Jogi Tanulmányok* [Papers in Law] 1997., Ed.: Attila Harmathy pp. 315–338., Árpád Kovács: *A M. kir. Állami Számvevőszék 1870-es megalakulása és előzményei* [Establishment of the Royal Hungarian Supreme Audit Office in 1870 and Antecedents], *Magyar Közigazgatás* [Hungarian Public Administration] 2000.1. p. 668 et seq., Árpád Kovács: *Töredékek a Magyar Királyi Állami Számvevőszék 1870-es megalakulásáról és előzményeiről* [Fragments on the Establishment of the Royal Hungarian Supreme Audit Office in 1870 and Antecedents], *Pénzügyi Szemle* [Public Finance Quarterly], 2002. 9. p. 823 et seq. András Cieger: *Lónyay Menyhért 1822–1884. Századvég*, 2008, pp. 234–244.
- ² Arthur Balogh: *A törvényhozó hatalom* [Legislative Power]. Budapest, 1899, p. 81
- ³ *Ibid.*, p. 106
- ⁴ Károly Kmety: *A magyar közigazgatási és pénzügyi jog kézikönyve* [Handbook of Hungarian Administrative and Financial Law]. Budapest, 1911, p. 68
- ⁵ Ede Márfy: *A magyar pénzügyi jog kézikönyve* [Handbook of Hungarian Financial Law]. Budapest, 1930, p. 138
- ⁶ Papers of the House of Representatives of the Parliament called for 10 December 1865. VI. 62. 328. *Az állami bevételek és kiadások 1867-ben* [Public revenues and expenditures in 1867]. Compiled by the Royal Hungarian State Accounting Department from the accounts drawn up by the I&R Supreme Audit Office according to the chapters and headings of each Ministry and sector. Buda, 30 September 1868.
- ⁷ Public Final accounts for the Countries of the Hungarian Crown for 1868 by the Royal Hungarian State Accounting Department, Buda, 30 September 1869.
- ⁸ Public Final accounts for the Countries of the Hungarian Crown for 1869, Buda, 28 October 1870. From the Royal Hungarian Press.
- ⁹ Dávid Pap: *Állami zárszámadás joga* [Law of Public Final Accounts]. Budapest, 1897, p. 26
- ¹⁰ Papers of the House of Representatives of the Parliament called for 20 April 1869, II. 131. 153. Report by the Standing Financial Committee on the submission by the Ministry of Finance including the public final accounts for 1868.

- ¹¹ Papers of the House of Representatives, I. 289. 99. Bill Concerning the Establishment and Powers of the State Audit Office, Pest, 1 July 1869. Presented: Gábor Várady
- ¹² Papers of the House of Representatives, II. 109. 148. Bill Concerning the Establishment and Powers of the State Audit Office, presented by Menyhért Lónyay
- ¹³ Ferenc Teghze Gerber: *A LÁSZ jogállása* [The Legal Status of the Supreme State Audit Office]. *Adó* [Tax], 1921. p. 208
- ¹⁴ Ferenc Teghze Gerber: *Ibid.*, p. 209
- ¹⁵ Journal of the House of Representatives of the Parliament called for 20 April 1869 (Journal of the Parliament), 1869–72. V. 188.
- ¹⁶ Journal of the Parliament, 1869–72. V. 188.
- ¹⁷ Journal of the Parliament, 1869–72. V. 188.
- ¹⁸ Ferenc Teghze Gerber: *Ibid.*, p. 210
- ¹⁹ The Government was not indifferent to the manner in which this key public office was filled. This attested to by the opinion of Ministers, documented in the minutes of the debate on the Bill in the Council of Ministers (Minutes of the Council of Ministers, 1869. XII. Session 7, 1). The Cabinet, ignoring the reservations of the Minister of Finance in this regard, voted for the arrangement provided for in the Act, noting that “the parliamentary Government, formed as a rule from the majority in Parliament, will always have the influence to nominate at least one candidate whose election will be desirable to His Majesty and his Government...”
- ²⁰ Papers of the House of Representatives, 140. 287.
- ²¹ Journal of the Parliament, 1869–72. V. 204.
- ²² Journal of the Parliament, 1869–72. V. 191.
- ²³ Journal of the Parliament, 1869–72. V. 198.
- ²⁴ Ferenc Teghze Gerber: *Ibid.*, p. 211.
- ²⁵ Journal of the Parliament, 1869–72. V. 206.
- ²⁶ Journal of the Parliament, 1869–72. V. 205.
- ²⁷ Journal of the Parliament, 1869–72. V. 217.
- ²⁸ Papers of the House of Representatives, 1869. XIII. 319. 1347. Report by the Royal Hungarian State Audit Office to the Royal Prime Minister of Hungary on the arithmetic assessment of the 1867 management accounts and the final accounts for 1868. Pest, 21 July, 1871.
- ²⁹ Papers of the House of Representatives, 1869. XIII. 343. 1348. Report by the Royal Hungarian State Audit Office to the Prime Minister of Hungary on the assessment of the final accounts for 1869. Pest, 13 September 1871
- ³⁰ Papers of the House of Representatives, 1869. XIV. 1. 1351. Detailed Report for 1870 on Public Finances, Public Assets, the Assessment of Public Debt, and the Findings Obtained. Presented to Parliament by the Royal Hungarian State Audit Office in Pest, 27 October 1871.
- ³¹ Papers of the House of Representatives, 1869. XIV. 13–14. 1351. Detailed Report for 1870 on Public Finances
- ³² Papers of the House of Representatives, 1869. XIV. 22. 1351. Detailed Report for 1870 on Public Finances
- ³³ It is appropriate to contest the data cited in Matlekovits (1894), Vol. I., p. 264 et seq.: the Council of Ministers of 25 June 1872 could not have considered the final accounts because the

Council of Ministers was not in sitting on that date.

³⁴ Papers of the House of Representatives, 1869. XIV. 219. 1352. Comments of the Royal Hungarian Council of Ministers on the Detailed Report for 1870 on Public Finances, Public Assets, the Assessment of Public Debt, and the Findings Obtained, issued by the State Audit Office on 27 October 1871 under No. 2903, presented to Parliament by the Prime Minister.

³⁵ Papers of the House of Representatives, 1869. XIV. 219–220. 1352.

³⁶ Papers of the House of Representatives, 1869. XIV. 220. 1352.

³⁷ Papers of the House of Representatives, 1869. XIV. 221. 1352.

³⁸ Papers of the House of Representatives, 1869. XIV. 221. 1352.

³⁹ Papers of the House of Representatives, 1869. XXIV. 15. 1029.

⁴⁰ Cf. Act LXVI of 1880 on the internal organisation

and procedures of the State Audit Office, as well as its powers to assess public debt.

⁴¹ Journal of the Parliament, 1872–75. XVII. 49. 384, 7 May 1875.

⁴² The debate was brought to an end by Act LXVI of 1880 on the internal organisation and procedures of the State Audit Office, as well as its powers to assess public debt. Section 17(4) of the temporary procedures referred to earlier was “clearly adjusted [by Article 19 of the Act] so that the wording of the Act would express the intended purpose more accurately, thereby precluding any misunderstanding.” Within the meaning of the Act, “the State Audit Office shall examine revenues and expenditures not only for arithmetic correctness and consistency with accounting documents, but, in particular for the purposes set out in Art. 14 of Act XVIII of Act 1870, also carry out a substantive assessment of their compliance with laws, legally binding agreements, and applicable regulations in various sectors of public administration.” It is therefore evident that for the reasons cited here, the actual and substantive control activity of the State Audit Office did not have the chance to evolve.

⁴³ Magyar Törvénytár [CJH], Acts of Parliament, 1914. Budapest, 1915

LITERATURE

BALOGH, A. (1899): *A törvényhozó hatalom [Legislative Power]*. Politzer, p. 206

CIEGER, A. (2008): *Lónyay Menyhért 1822–1884*. Századvég Kiadó, p. 557

HORVÁTH, GY. (1991): Az Állami Számvevőszék történetének tanulságai [Lessons from the History of the State Audit Office of Hungary], *Pénzügyi Szemle [Public Finance Quarterly]*. Third Issue, pp. 231–245

KMETY, K. (1911): *A magyar közigazgatási és pénzügyi jog kézikönyve [Handbook of Hungarian Administrative and Financial Law]*. Vols. 1–2. Grill, pp. 735, 742

KOVÁCS, Á. (2000): A M. kir. Állami Számvevőszék 1870-es megalakulása és előzményei [Establishment of the Royal Hungarian Supreme Audit Office in 1870 and Antecedents], *Magyar Közigazgatás [Hungarian Public Administration]*. Issue 1, pp. 668–673

- KOVÁCS, Á. (2002): Töredékek a Magyar Királyi Állami Számvevőszék 1870-es megalakulásáról és előzményeiről [Fragments on the Establishment of the Royal Hungarian Supreme Audit Office in 1870 and Antecedents], *Pénzügyi Szemle [Public Finance Quarterly]*, Ninth Issue, pp. 823–840
- MÁRFFY, E. (1930): *A magyar pénzügyi jog kézikönyve [Handbook of Hungarian Financial Law]*. Grill, p. 451
- MATLEKOVITS, S. (1894): *Magyarország állambázis-tartásának története [A History of Public Finances in Hungary]*. Vols. 1–2. Grill, pp. 648, 1075.
- PATZNER, L. (1990): Legfőbb Állami Számvevőszék 1870–1949 [Supreme State Audit Office 1870–1949]. *Magyar Közigazgatás [Hungarian Public Administration]*. 2. pp. 164–172
- PÉTERVÁRI, K. (1997): Az állami számvevőszék magyarországi története [The Hungarian History of the State Audit Office]. In: Harmathy, A (Ed.): *Jogi Tanulmányok [Papers in Law]*, pp. 315–338
- RÉVÉSZ, T. (1971): *A központi állami ellenőrzés szervezetének kialakulása Magyarországon 1867 után [Evolution of the Organisation of Central State Control in Hungary after 1867]*. ELTE, Department of Hungarian Legal History. 59.
- RÉVÉSZ, T. M. (1989): Adalékok az Állami Számvevőszék múlt századi történetéhez [Contributions to the 19th Century History of the State Audit Office of Hungary]. In: Timoránszky, P. (Ed.): *A számvevőszék (Tanulmányok, külföldi törvények) [The State Audit Office (Papers and Foreign Laws)]*. Magyar Tudományos Akadémia Államtudományi Kutatások Programirodája [Programme Office of the Hungarian Academy of Sciences for Government Research], Budapest, pp. 26–48