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Challenges for State Audit Office control and the advisory role of the State Audit Office

As an introduction to our conference, I wish to briefly talk about the well-known challenges that decisively influence State Audit Office control, the related research activity as well as the contents of the advisory role.

The mission of the State Audit Office is, as is laid down in its strategic documents, to strengthen the transparency of public finance processes, the accountability of managing public funds and public property, and to serve the secure and balanced operation of public finances. The SAO control assists and facilitates the National Assembly to exercise its budgetary right and meet its legislative and control function.

So as to meet the above mission, the State Audit Office has in the past years, beyond its basic function: the audit activity, and also in compliance with that, developed its advisory activity, enhanced its analysing and assessment work directed at certain key areas and neuralgic points of public finances, contributed to the research and analysis work ongoing within the framework of the state reform and cooperated with the activities of various anti-corruption state committees.

The basis of the research-advisory activity meant to assist the work of the members of the legislation primarily is the rich experience accumulated during the audit activity of SAO. It was for the targeted utilisation of this knowl-

edge that the President of the State Audit Office established the SAO Institute for Development and Methodology in 2001, which has operated under the name SAO Research Institute since January 1, 2009. By utilising the audit experience of SAO and using the latest domestic and international research findings, the Institute has made 4–5 major evaluative studies per annum in the past almost 10 years. Through its research activity, it has been closely connected to the SAO targets of strategic advising.

The studies have analysed the operation of respective fields of the economy (e.g. in-patient care, environment protection, adult training) and examined decisive economic processes (e.g. research and development, privatisation). Considering both the state of public finances in Hungary and the State Audit Office strategy formulated in view of the former, *public finance regulation was chosen as the priority field of the research-advisory activity. The first milestone of this work was mapping out the theses on the regulation of public finances.* The document was submitted to the National Assembly by the SAO President in April 2007 and discussed by the budget committee still in the same month. In their Resolution No. 41/2007 (of May 23), the National Assembly expressed their acknowledgement of the docu-

ment and requested the Government to make use of the theses during the public finance reform. Related to the theses, the past three years have witnessed the birth of several studies at the Institute that can serve as the basis for a comprehensive modernisation of public finances.

It should be pointed out that the *evaluations and studies published within the framework of the advisory activities are by no means SAO audit reports. At the same time, the analyses rely on the findings of audits* to a great extent. They systemise and weight these according to various criteria, also connecting them to various literature findings and research results.

Our research findings have been dispatched, in the form of publications, to National Assembly officials, the government organs concerned and to professional workshops in hundreds of copies. The studies are all public and free to download from the homepage of the National Audit Office.

Today's global economic crisis has broken the almost unfolding consolidation process of public finances and has made it clear once again that the economic and budget policies of the past two decades have not been consistent enough and have failed to prevent budget overspending. The unfolding also requires the gradual elimination of structural weaknesses causing efficiency and competitiveness problems, which is unimaginable without a reform-scale modernisation of public finances and of the major community supply systems within the former. Considering the magnitude and the manifold nature of the problem, the solution of the tasks, the transformation, may only be gradual, wide-scale and multi-level.

Today, Hungary faces new adjustment tasks. The earlier target-focused and restriction-oriented approaches must be replaced by dynamic models suitable for receiving changes. In the course of this we must rely also on factors able to harmonise and accelerate economic and social

development like cooperation, new partnership relations, an up-to-date public administration, high-quality legislation and consistent law enforcement.

The renewal of the regulation of public finances serves a double purpose. Its immediate goal is to establish a system of regulations and institutions and find the technical solutions by which public finance management can be made more transparent, reliable and efficient at the levels of the national economy, local governments as well as the institutions, while also considering arising risks. The ultimate goal is to achieve that, through the better operation of the public finance system, the approximation and later establishment of financial balance and, through these, by the restoration and strengthening of confidence in Hungarian public finances, the external and internal conditions of competitiveness and sustainable development significantly improve.

The regulation on public financial planning, the management and accounting process as well as public financial control similarly deserve reconsideration. Many of the countries ahead of us have proven that the performance requirements demanded of the public sector as a whole, of its branches and individual players produce welfare benefits. It is especially important to implement the principle of performance orientedness in the planning phase already since this phase of management decisively influences the rest of the management process.

It is thus evident from the above that *the modernisation of the regulation of public finances* should not be narrowed down to the amendment of certain acts on the operation of the state budget; this is *a series of several interconnected tasks from defining the model of state involvement to making public administration more competitive*. Thus, the advisory activity of SAO and its research activity serving the former inevitably affect several fields. For several

years we have urged, for instance, the clear identification of public tasks, the renewal of the state budget information system and the establishment of transparent and measurable target systems for public money expenditure. This is how we have reached the subject of this conference, the public policy challenges of the new decade.

The immediate goal of the conference is to make the professional public as well as colleagues interested in the formation of public finance regulation familiar with the activities of the SAO Research Institute; more closely and quite precisely with three studies of the institute (and the cooperating workshops). This is not a goal for its own sake, at the same time. The actual goal of the conference is to contribute, through our studies and by expert debates on them, to enhancing the substantiation of public policies.

It was in autumn last year that the SAO Research Institute released a publication on reasonable state involvement in the economy. The part of the study analysing the Hungarian economic policy of the past 20 years points out that it was the failure to choose a model that posed one of the greatest problems: the intention to construct social market economy and forced liberalisation were difficult to harmonise and in the end produced a dual economy and an extensive public sector operating with low efficiency. Accordingly, the greatest challenge for public policy making is to devise a realistic vision that is able to mobilise the majority of society.

■ By this, we have arrived at the first topic of our conference: national economic planning. What justifies the need for it? What could be its role? How can the current fragmented planning system be transformed in a way to serve social-economic development in Hungary? How can national economic and regional plans be joined; how can the development of individual settlements be made more purposeful?

■ The latter questions take us over to the second panel of our conference, which analyses the financial situation of local governments. The State Audit Office and its Research Institute have repeatedly noted it was time the financial-public finance regulation regarding local governments was changed. By today, it has become considerably easier politically to pass the necessary qualified majority laws. This is why it is especially important to provide a comprehensive professional basis for these decisions, to which, we hope, this study and the related debate may significantly contribute.

■ It is a big question how the Hungarian economy can be made more competitive through the formation of public policies. We formulated this question in late 2005 already when our institute signed an agreement on cooperation with the Competitiveness Research Centre of Corvinus University for research on the relationship between the public sphere and the competitiveness of the economy. The first findings of the research were made public in 2007. The second volume of studies published this April explores this system of correlations from various approaches and by several methods, formulating the necessary recommendations. Now I do not want to let the cat out of the bag yet. I can tell you, however, that, through the research, the fields most in need of a change so that the competitiveness of the Hungarian economy could be enhanced could be clearly identified.

■ In addition to the studies of the SAO Research Institute, another product of the SAO advisory activity is the Public Finance Quarterly. The publication of the public finance journal with half a century's tradition, now available to read also in the English language, has been in the authority of the State Audit Office since autumn 2005. The coming issue of the Public Finance Quarterly, to be

released this autumn, is to be devoted to this conference, i.e. we will publish the lectures delivered at the conference and the opinions represented at the panel discussions in an edited form.

I hereby open this conference in the hope that it will not only give participants useful and new information but some of the recommendations discussed here may also be incorporated into the process of public policy formation.

LITERATURE

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