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Advisory activities in the State Audit Office

T*The history of financial control and audit embraces several hundred years. It goes back to the early Chinese empires as well as to the ancient Greek city-states. The history of state financial audit can historically be divided into three main periods: from the early communities until the French revolution, from the French revolution until and a few years after World War Two and finally from then on until our time. We must however add that this division is evidently not “fine-tuned”.*

The first appearances of advanced parliamentary financial audit were about 250–300 years ago in contemporary Europe, primarily in Germany, Belgium and in some other countries.

The first traces of Hungarian public accounts and accountability, i.e. state audit, can be found in royal treasury accounts and records. The oldest document dates from 1528. Public funds audit became a reality in Hungary after the Compromise of 1867. The State Audit Office was founded in 1870.¹

My paper is not aimed at tracing the progress of audits performed by audit institutions, nor does it want to analyse the activity of the supreme financial audit organisation of the Hungarian state, the State Audit Office (SAO), established (re-established) on January 1, 1990. Rather, my study intends to demonstrate that the focuses of SAO audits are gradually being shifted from the traditional computation, i.e. checking the mathemati-

cal accuracy of figures, to performance audits, programme evaluations which are also suitable for economic analyses, and by summarising the experience of individual audits and by the “targeted” processing of research results, financial audit leads to an advisory activity that orients public opinion. While the reports prepared about audits, which rely on stringent professional rules and methodological requirements, continue to be a priority, the advisory activity together with the reports enables the supreme national audit institutions – in view of the current challenges – to help Parliaments exercise their legislative and control functions and to contribute to the enhancement of the operational efficiency of the public sector and public finances.

My essay offers an insight into how the above practice of the State Audit Office is developed, but it is not aimed at evaluating the content and analysing the impacts of the various recommendations and written compilations made within the framework of the advisory activity. It could probably be the subject of a separate paper.

STRATEGIES OF THE STATE AUDIT OFFICE

As determined by legal obligations, based on the established internal decision-making mechanism, the president of the State Audit Office

(SAO) may take decisions – in the average of several years – on one-third of the utilisation of the audit capacity. Decision-making requires strategic direction and planning. The function of SAO's strategy is to define – generally for a parliamentary cycle – the major directions and internal division of work in the audit activity and the opportunities for the efficient utilisation of the resources required for carrying out the tasks. The key principle is that audits and reports are always trying to find the causes behind the facts, and the background correlations in respect of the area, topic or project under review and to explore the possibilities of improvement.

The first attempt to summarise and analyse the lessons that go beyond the findings of a specific audit – in a formalised way – was in SAO's strategy published in year 2002. Namely, the management identified a number of areas within the public sector and the national economy on which thematic audits should be focused. The aim was to analyse and evaluate the operation of the given areas through SAO audits by relying on the experience gained from thematic audits in medium run.²

With this strategic problem solving, i.e. efforts aimed at summarising and analysing, the Strategy for year 2002 has opened a new chapter in SAO audits in Hungary. It has laid the foundation for advisory activity by formulating the following strategic objective of priority importance: "...by applying appropriate audit methods and techniques, and cooperating from time to time with partner audit institutions and research institutes, the audit office forms a comprehensive, evaluating opinion on the utilisation of public funds and public property".³

The above basically refers to an activity – without using the actual term – which is today usually regarded professional opinion orienting, as advisory activity.

Below is a quote from SAO Strategy 2006–2010 and from the regulation included in the revised SAO Audit Manual which contains the

audit methodology rules of SAO based on the above Strategy, a regulation which now has the status of Audit Principles and Standards "... the mission of the SAO is to serve the secure, balanced and efficient operation of public finances, to support its development, to strengthen the transparency of processes related to public funds, and the accountability of managing public funds and public property. The SAO audit facilitates Parliament to exercise its budgetary right and to fulfil its legislative and control function. It participates actively in the domestic and international area of the audit profession and contributes to improve the standard of audit culture."⁴

The professional regulation, the Audit Manual, makes it also clear that the audits, findings, conclusions and proposals are utilised by the National Assembly (Parliament), the government, ministries, local governments and generally by the audited organisations.⁵

The necessity and possibility of shaping professional opinion, of advisory activity, directly derive from the salient strategic objectives and tasks which were defined by the management of SAO – in conformity with its legal obligation and in line with its mission – as a part of the strategy for 2006–2010 in force. Its cornerstone is that audits and the advisory activity should promote the renewal of the system of public finances in every possible way and with every possible method, and by doing so, contribute to put the national economy on a sustainable development and growth path with sound financing.⁶

In order to accomplish the key objectives – reads the strategy document – SAO develops its advisory services, intensifies the analysing and assessment work directed at certain key areas and neuralgic points of public finances (in this respect, the content of the previous strategy remains the same, it "directly" carries on with it), and by doing so, it also strengthens its advisory function in formulating an opinion on

budget planning with special attention to the security and feasibility of the budget.⁷ I promptly add that the systematic arrangement and analysis of information were performed in this spirit in cooperation between SAO and its research institute, and as a result, we could publish the theses which summarise the principles of the renewal of the public finance system.

INTOSAI, THE ORGANISATION HARMONISING PROFESSIONAL DEVELOPMENT

In the “world of audit institutions” the most important documents that are relevant even today and which deal with the statutes, problem solving and concrete audit activity of organisations state – sometimes only indirectly – demonstrate that in addition to audits conducted on the basis of consistently strict methodological rules, the position and function of the supreme audit institutions within the state structure and the utilisation of their activities can and should be interpreted in a broader horizon.

Thus the Lima Declaration, which is also considered as the “constitution” of audit institutions, was adopted at the INTOSAI Congress in the Peruvian capital in the autumn of 1977, defines the purpose of the audit itself as a part of the regulatory system. It deduces from the above that the audit institutions may help the work of Parliaments, the execution and improvement of administrative activities with professional consultation and expert opinions, in other words, with advisory activity.⁸

The INTOSAI-standard (ISSAI 100) concerning the basic principles of government auditing lays down that the audit institutions may also provide useful information to decision-makers based on their activities that by strict definition do not qualify as auditing. With this the regulation practically outlines the framework of advisory activity.⁹

The general standards of government auditing and the standards of ethic significance (ISSAI 200) state that a degree of co-operation between the SAI and government is desirable in certain areas and the SAI should give advice to government. In terms of giving advice the regulation (back then) only mentions such matters as financial statements and accounting standards and policies. As a result of considerable reforms and new challenges in the (world) economy that had surfaced since then, not only the focuses of SAO audits but – depending on the latter – the possible scope of the content of the advisory activity have also changed and broadened. At the same time, the direction of the standards continues to be clear and important from the aspect of safeguarding the independence of audit institutions.¹⁰

It would deserve a more detailed analysis how the concepts, proposed solutions and initiatives for expanding the professional scope and content of SAO audits and for stimulating its development at the level of INTOSAI, an organisation dedicated to harmonise and develop the professional activity of supreme audit institutions. In the following pages I will only give an outline of the main direction of the change.

The Washington Accords, adopted at the XIV INTOSAI Congress in 1992, represented a significant step in the development of the professional approach and professional philosophy behind the activity of INTOSAI, the world organisation of supreme audit institutions. As opposed to the former practice, the new goal set was now that instead of merely describing and examining, audits should attempt to improve and help and should try to influence the financial management of the state and, in addition to detecting faults, they should make proposals on how to eliminate them.¹¹

It was at the XVII Congress at Seoul in the autumn of 2001 that increased emphasis was placed on the advisory role – directly and con-

cretely – for the first time at the highest level of INTOSAI. As regards the role of audit institutions in administrative reforms, it was stated that INTOSAI (its Congress and professional organisations) were increasingly addressing issues related to the political and administrative organisation of the state and other similar topics instead of the questions that were traditionally focused on in the past. The identity of the supreme audit institutions changes and renews, and as a consequence, audit institutions must assume an advisory role in the implementation of reforms by using their professional experience.¹²

The conference held in Washington in the spring of 2006, which was a significant step in the professional convergence process of the World Bank and INTOSAI, shows the new focuses of the activity of audit institutions and their international organisation and the significance of modern performance audits that go beyond traditional arithmetical controls and regularity audits. It was stressed at the conference that the professional relationship of the two world organisations is based on the responsibility demonstrated by both systems of institutions in the efficient utilisation of public funds, in good financial management and governance.¹³

It is considered as a milestone in the more than fifty-year history of INTOSAI that, for the first time, a middle-range strategic plan was adopted, aimed at developing the international organisation, at the XVIII INTOSAI Congress organised in Budapest in October 2004. The plan was devised to develop the world organisation in the light of the macroeconomic and social challenges. At the latest event, the XIX Congress, which was held in Mexico City on November 2007 and was dominated by the evolving trend of modernization, tasks were specified in connection with the expanding advisory role and the independence of supreme audit institutions, and the new structured system of audit methodology rules.

Decision was made at the Congress that the individual audit types and their interrelation should be redefined in view of the economic and social changes. One of the most important tasks is to clarify how to make the relation and interaction between performance audits and program evaluation more intensive based on the assumption that program evaluation can be viewed as a particular branch of program-centred, system-oriented performance audit.¹⁴

ADVISORY ACTIVITY AT FOREIGN PARTNER ORGANISATIONS

Adjustment to the changing needs and new challenges of the world is illustrated by the fact that there is an increasing number of examples even in the activity of foreign partner organisations for the utilisation of the capability of SAO audits to reveal and analyse facts and, as its particular form, for the gaining ground of the professional opinion-orienting consulting and advisory role.

Building on studying the professional literature and various documents, and on short professional exchange of experience or on the lessons of conferences, we can only draw the contours of typical solutions as we have no empirical evidence. We have no information on how these consultations and advisory activity “work” in practice abroad and how efficient they are. But the mere fact that such activity has become a practice in several countries – in addition to those mentioned below, e.g. in Belgium, Denmark, France, Russia, Slovenia, Turkey – speaks for itself.

The function and objective of our most important professional co-operation partner our British *sister organisation*, the National Audit Office (NAO) are lively described by its vision and key strategic principle which is no more, no less than “helping the nation spend wisely”.

The NAO has been consistently promoting the economic initiatives of the central government aimed at reforms for years. In these series of initiatives, mention is to be made of the NAO's participation in the programme, entitled *Modernising government*, which was published by the Prime Minister in the autumn of 1999. The aim of the programme was to better organise, manage and operate, in other words, modernise the large community supply systems, education, health and justice. The British sister organisation issued a declaration on supporting the programme and tried to foster its implementation with its audits and advice.

In his paper published in the *Public Finance Quarterly*, the president of the NAO explained that they take part in the efforts of the Better Regulation Commission in an organised manner. The Commission provides independent advice to government. The NAO has given and is giving advice with the purpose of improving the information background for the budget, modernising budget accounting and renewing the related management and direction activity. Its report titled the "Progress in improving government efficiency" describes the possibilities of improving efficiency. The President also stressed that the NAO is making an effort to meet its legal obligations and its mission summarised in the above slogan in an increasing number of fields, through performance audits carried out in the British public sector and with continuous advisory activity based on these audits.¹⁵

The active influencing, advisory role of the *German* partner organisation in developing budgetary chapters and the budget of ministries has been dominant since the 1969 reform of the Federal Budget Principles Act. The German audit office takes part in the budgetary negotiations of the Federal Ministry of Finance and the ministries. It has also become a general practice that opinions are provided on laws affecting public finances in an organised manner.

In addition – and this is a peculiar feature and fairly important one for our theme – the president of the audit office is (not automatically, but apparently always) assigned to the post of Federal commissioner for the efficiency in administration (*Bundesbeauftragte für Wirtschaftlichkeit in der Verwaltung*). The commissioner endeavours to promote the organised and efficient performance of federal government administrative duties through expert opinions and proposals made explicitly in the form of giving advice. He has no separate staff, but relies on the professional capacity of the audit institution and on his audit experience.¹⁶ This special assignment and advisory role are also treated in the professional literature dealing with the statute and operation of the German partner organisation primarily from the perspective of legal administration.¹⁷

In *Finland* the supreme audit institution comprises an Advisory Board set up as stipulated by law. Its members are government officials, MPs, leading members of local government associations, well-known economic experts and leading officials of the supreme government control organisation.

The audit institution of *Norway* has made it a general practice to continuously summarise and evaluate audit experience, and building on such experience, it makes recommendations to contribute to the operation of the financial system as an external advisory organisation.

It is also part of the work of such a – geographically – distant partner organisation as the Audit Office of *New Zealand* to provide advice to financial government and to give answers to various central and local administrative organisations in consultation questions affecting public funds.

And looking at our neighbours, we can see that the supreme audit institution of Austria – in line with its strategic principles – lays special emphasis to on co-operating with its auditees in the spirit of trust, as well as conducts con-

sultation in connection with its audits. Its work of expressing expert opinion on draft laws is also of an advisory nature.

The activity of the *US* Audit Office has from the very first been built on professional analysis and evaluations in well-defined themes. Its primary “output” is providing expert opinion and advice at the request of the Congress and its member.

This brief insight into the practice of partner organisations serves as an illustration without aiming at providing a full picture, but it can undoubtedly demonstrate that beyond the traditional audit function, the range of activities performed by foreign audit institutions is becoming more and more diverse and they are making more and more extensive use of their professional capacities. Today the supreme state audit institutions do not only produce reports on individual audits – carried out by applying international standards – but they also summarise their experience to contribute to the work of legislators and (financial) government through defining well-specified (national) economic issues and revealing correlations that may have an impact on the above and by giving advice that shapes opinion and by providing expert opinion on legal provisions.

ADJUSTING TO THE NEW TASKS – COMMUNICATING THE CHANGES

Although it deserves special attention how the legal obligations and rights of the financial and economic audit organisation of Parliament have almost continuously broadened always rapidly and considerably adjusting to economic changes, its detailed description would however go beyond the confines of my paper.

In addition to auditing, counter-signatory and reporting rights and obligations, the SAO has been assigned with particular duties that cannot be classified as advisory activity. But

these duties are to some extent similar to it to the extent inasmuch as they assist the work of other organisations that relying on SAO's independence and on its objective, professional activity. We can mention, for example, that the president of the State Audit Office expresses an opinion on the proposal made for the auditor of the National Bank of Hungary, he makes proposal for the chairman of the supervisory board of the Hungarian State Holding company, for auditors of separate state funds and – under specific conditions – for the chairmen of state-owned companies.

I do not go into details of SAO's scope of duties. I merely indicate that the adjustment to new challenges and the broadened range of duties have been accompanied with a modernisation of the organisation and work organisation. The professional regulatory system and the audit methodology have also improved and have been enriched with the applicable elements of the so-called best (leading) international practice.

The background work facilitating the adjustment and the preparation of the president's decisions of strategic importance have been supported and are supported by the President's Advisory Board with the help of external experts through professional workshop discussions and advisory activity. The Methodology Committee has fulfilled and fulfils similar professional selection, assessment and advisory functions.

Based on the recognitions gained in the course of the ongoing transformation and development as well as on the experience of carrying out new tasks, the professional debates and exchange of ideas within SAO have taught the organisation a number of lessons and contributed toward formulating new questions and future tasks. The above is traceable in the communication and professional publications of the changes.

One of the most comprehensive, systematising publications is *Árpád Kovács's* already cited

textbook with a title which speaks for itself: “Financial Control and Audit in a Changing Environment”. A professional “forerunner” of the work is the collection of theses presented by the president of SAO for obtaining university habilitation. The novelty of the book is that Kovács treats audit experience as a means of self-learning in the society and finds it important to develop SAO's advisory role and thus to strengthen the service character of SAO audits even with a view to clearly interpreting audit experience.¹⁸

Following the theses, when analysing SAO strategy 2002 and 2006 in his habilitation presentation, the president of the audit office underlined that there was a need for SAO audits that facilitate the transparent and accountable utilisation of public funds and state assets. In order to accomplish that – he confirmed – SAO undertakes advisory, financial and scientific research role and, by making use of its active involvement in the international audit community, it and contributes to enhancing the efficiency of the domestic financial audit system.¹⁹

There is a long list of official functions as well as various professional events, conferences, round-table discussions organised with the contribution of SAO, where SAO's leading experts and/or president spoke about the changing and growing role and, none the less, about the responsibility of SAO audits and the advisory function that goes beyond individual audits just at the time when in the middle of our decade the analysing, evaluating and advisory roles considerably strengthened in SAO's work.

It is important to mention, for instance, the contribution made by the president of SAO in the parliamentary debate of the 2005 budgetary bill on October 29, 2004. He referred to the fact that an increasing number of European audit offices form an opinion, in some form or other, about the soundness of budgetary bills

and that the Hungarian SAO's work of providing opinion – in line with its relating legal obligation – is advisory activity. In the framework of this work SAO makes an attempt to point out more extensive international economic correlations, trends by formulating its opinion in a broadened perspective.²⁰

The different presentation and contributions can be followed closely at annual conferences of financial experts and leading officials and also at unique events such as the Conference of Young Researchers.

At the so-called Financial Summit in August 2006, the president of SAO put the responsibility of the organisation in the limelight. Based on this responsibility the SAO should provide advice to Parliament for situation analysis and decisions by relying on and going beyond direct audit findings.²¹

The president was analysing this subject area at the Conference of Young Researchers indicating that although specific policy issues fell outside the scope of SAO, audit results are studied in a wider context and published within the framework of giving advice in line with international practice.²²

Based on the above description which is citing examples rather than aiming at providing a full picture, it should be clear now that the Audit Office's activity is characterised by a broadening horizon and its advisory activity is justifiably gaining ground. This feature is a proper adjustment to the mainstream activity of the Audit Office in which the modernisation of audit activity has become dominant. This is underlined by the Preface to the revised Audit Manual's second edition written by the president of SAO: “The new forces that are shaping the economy and the society as well as the various mechanisms that impact them compel us to gradually shift the focuses of SAO's activity. Instead of accounting-based audits and focusing on organisations and their reports and records, there will be an increasing need for

audits and analyses in the future which provide assistance for parliamentary decisions and for legislative and audit functions in the course of preparing and approving various development plans and programmes.”²³

FACTS AND DATA ABOUT SAO'S ADVISORY ACTIVITY

In the recent years – as the saying goes now – theory has been translated into daily practice and the new emphases of SAO's activities have become prevalent in its every day work.

This new trend is also facilitated by SAO's management whose members were and are aware of the fact that the broader SAO's scope of audit activity and the more intensive its parliamentary contacts are (and in both aspects the SAO of Hungary is among the “pioneers” in international comparison), the greater competence it will have in planning its own tasks for years to come with a view to the public and the national economy as a whole. This competence also involves the use of those elements of SAO's capacity which are not primarily determined by law provisions.

The professional, organisational and institutional development of SAO is reflected in its strategic approach, in its consistently constructed planning system based on planning circulars and guidelines and above all in its work focusing on audits, advisory activity and developing domestic and international professional relations. The success of the above work has been recognised and appreciated in a number of parliamentary resolutions.

Below an attempt will be made to illustrate the most important actions and results of the State Audit Office as well as the advisory activity of SAO's Research and Development Institute, a research centre closely associated with SAO. The illustration is based on facts, data and initiatives rather than on an extensive analysis.

It is very important to repeatedly emphasise that the analyses, evaluations and studies produced as a result of SAO's advisory activity are by no means audit reports, despite the fact that these analyses and studies rely – to a large extent – on the result of audits. The above analyses, evaluations and studies are produced on the basis of different criteria, their focuses are also different from audits, and they often contain various excerpts from professional literature, research results and (last but not the least in an increasing proportion) from the products of SAO's research institute.

It is also important to stress that the audit experience of the very first years was already suitable for thematic analyses and systematisation. A 200-page publication, titled “The State Audit Office reports”, was issued already in 1994, a document which dealt with the initial experience of audit activity. The publication discussed the experience of audit activity and the recommendations in the form of analytical studies closely linked with each other. These studies already in 1994 revealed and recognised facts, data and correlations that supported the need to revise and reform public finances and outlined some of the necessary measures. This was the first really significant tangible opinion-orienting advisory “product” of SAO in today's sense of the term.²⁴

It is a known fact that the report on SAO's activities in the preceding year is submitted to Parliament for debate, assessment and adoption. The parliamentary resolution on SAO's activity identifies the future direction to be followed and specifies the new tasks. In the recent years Parliament's resolution called for enhancing the professional content of audit activity, for further developing the related methodology and, by doing so. By doing so, it also called for an activity which can facilitate the modernisation of public finances, for broadening the compliance testing of final accounts and for modern performance audits, research and analytical work and advisory activity.²⁵

What do the facts indicate ?

As a result of the parliamentary resolution adopted in 2005, SAO's advisory activity has become increasingly extensive and meaningful in content. This is partly explained by SAO's acceptance of a pioneering role in which, in addition to more thorough-going and target-oriented audits, focus was gradually shifted in SAO's professional profile to the public domain by using the studies of the Research and Development Institute concentrating on the financial issues of the public finances.

In the autumn of 2005 – under the auspices of SAO – a renewed, joint issue of the *Public Finance Quarterly* was published for the first time in English. This professional journal on public finances with a tradition of 50 years continues to play an important role, it provides a credible overview about the financial system and – in the context of the most significant financial correlations – it provides information about the way the public sector and the national economy operate, about their main features, about efforts aimed at catching up and planning the future as well as about the professional debates connected with the above subjects.

In addition to implementing the tasks specified in parliamentary resolutions on SAO's activities, the State Audit Office's advisory activity has become a continuous one in the recent years. This activity is conducted in close co-operation with SAO's research institute and with other domestic and foreign research centres and by broadening the professional contacts with Hungarian higher education institutions. As also pointed out by Gusztáv Báger in a recent publication of the research institute's director, the various analytical works and studies produced in the framework of SAO's advisory activity are frequently used in SAO's relationship with universities, they often serve as a

basis of training programmes, and they are regularly studied in PhD courses very much in line with the strategic aspirations.²⁶

The professional basis of a system-oriented performance audit was laid down by modernising the professional regulation and by publishing SAO's renewed Audit Manual and by relying on the well-established routine work of professional audits. The methodology (the methodological guidelines) related to performance audit has also been completed.

SAO has had an important contribution to the research and analytical work conducted on state reform, and it has also participated in the activities of various national committees set up to combat corruption.

One of the significant advisory works was published in January 2004 when at the request of the Prime Minister, SAO produced a study titled “Opinions and Recommendations for preparing the Government's austerity measures”, a study-based series of recommendations with professional argumentation.²⁷

Later, in 2006, an analytical work was prepared at the request of the chairman of the State Reform Committee by systematising the most essential observations and conclusions of audit reports. It primarily attempted to identify the operational problems of large community supply systems and the causes behind them. The compilation attached to the study for information purposes contained the recommendations of the SAO audits conducted between 2003 and 2006 concerning the above theme as well as answers of those addressed by the recommendations.

Another of the significant advisory works was the professional opinion provided by SAO, at the request of the government, about the working document of the updated convergence programme of September 2006. The expert opinion was also largely built on the audit experience which was incorporated in the concrete assessment. SAO formed its opinion by August

28 about the working document received on August 25, which opinion was taken into account by those competent in drawing up the document titled the “Convergence Programme of Hungary 2005-2009”. The publication written on the basis of the expert opinion appeared in the Public Finance Quarterly.²⁸

At the request of the chairman of Parliament, SAO has prepared a survey about the remuneration and benefits of MPs in the context of international comparison and about the related recording and accounting issues. The survey, compiled with the aim of giving advice, was closed with recommendations.

A brief assessment was prepared in 2007 about the transformation of the healthcare system, based on audit experience relating to the healthcare system, at the request of the President of the Republic of Hungary, to provide him with the necessary information.

OPINION-ORIENTING PROFESSIONAL ADVISORY ACTIVITY – HOW TO CONTINUE?

Based on the above, the question is what is the future direction of SAO's advisory activity and what is the role of the decisive participation of SAO's research institute in it?

On January 1, 2001, the Research and Development Institute of SAO was established (as a legal successor of the Training and Methodological Institute of SAO) in line with the strategic objective to place an increasingly strong emphasis on the State Audit Office's research and advisory role.²⁹

The research and advisory activity designed to assist the parliamentary work of MPs is based on the rich activity experience and knowledge accumulated in the course of SAO's audit activity. By making good use of such knowledge and experience and by utilising the most up-to-date domestic and international

research results, 2 or 3 comprehensive summary studies were published annually by the institute in the past seven years, these assessment studies with the research activity behind them are closely linked with the objectives of SAO's strategy relating to advisory work.³⁰

The studies provided an analysis of certain areas of the economy, dealt with their operations and concentrated on the decisive economic processes. In the past two years a number of studies have also been published by the institute on public finances and on the question of how public finances can be modernised.

One of the important milestones in the history of the institute is the autumn of 2007 when, at the request of SAO's president, an assessment study was produced on certain correlations of the 2008 budgetary bill and on its macroeconomic soundness.³¹ In addition to a summary review and assessment of economic growth prospects and budgetary processes, the study highlighted in a few selected areas of key importance, some of the possible risks in the conditions of the budgetary bill, and it also demonstrated the impacts of the planned measures. The professional debates conducted by the experts of the study also pointed out that macroeconomic risk assessment is always an important and inevitable method in order to formulate an expert opinion about the budgetary bill, such risk assessment provide decision-makers with sufficient information to pay attention to (economic) correlations and critical points that may jeopardise the accomplishment of the budgetary objectives specified in the budgetary bill.

In 2008 the institute produced two further assessment studies as a logical continuation of its earlier work.³²

In May 2008, certain correlations of the 2009 budgetary bill were analysed by SAO's researchers with a focus on how much macroeconomic room for manoeuvre planning may

have. Based on the available knowledge in that time, this study also contained a risk and impact analysis of the possible factors that may expectedly influence the budget. The study was a unique one, because in such an early phase of budgetary planning usually neither the government nor the research institute is ready to publish microeconomic analyses which can serve as a background material for professional debate and reconciliation of interests before drawing up the budgetary bill.

In October, the effects of the international financial crisis made it clear that the macroeconomic path which had served as a basis of the original 2009 budget proposal submitted by the government to Parliament was no longer feasible. The study published by the Research and Development Institute in October also contained a macroeconomic path which no longer predicted any tangible economic growth. This study was distributed among MPs who directly utilised the statements and conclusions prepared by the researchers with an advisory purpose in the course of the parliamentary debate of the 2009 budgetary bill.

As a consequence of the financial crisis, the government submitted a revised budgetary bill which in its second version contained a motion for amendment aimed at adjusting the macroeconomic path. Comments to the revised budgetary bill were made not only by SAO in concrete observations but – in a supplement of SAO's document – the budgetary forecast was also commented by the Research and Development Institute in the form of a risk assessment with the specific aim to assist the work of MPs.

A number of different forums, such as the Advisory Board of the President, the conference convened by the general secretary and by the president have recently reviewed the possible new opportunities generated by the successful research activity of the institute. By making use of such opportunities, the

intellectual capacity of the researchers can be utilised in a more “task-oriented” way in the future, an approach which can further strengthen the advisory activity through the continuous co-operation between the institute and SAO.

In line with the objectives of SAO's strategy according to which it “strengthens its advisory function in providing an opinion on budget planning, with special attention to the security and feasibility of the budget”. Accordingly, there is every reason to conclude that in the coming few years the core activities of the institute will centre around the preparation and planning of the budget as well as around an assistance work designed to renew the regulation of public finances. The above objectives represent priorities in the present strategy in force. In order to accomplish these goals, SAO developed a compilation of studies titled “The Theses on the Regulation of Public Finances” and submitted it to Parliament in April 2007³³. This document and a separate analysis dealing with the key messages of the same document were later published in the *Public Finance Quarterly*.³⁴

In addition to the senior staff members of SAO, the institute's researchers have also played a decisive role in formulating the theses. They have also participated in the repeated – but unfortunately often interrupted – efforts aimed at modernising the regulation of public finances. (In 2007, in this subject area the institute published a study titled “State Reform, the Reform of Public Finances: International Trends and Domestic Challenges”.)

The possible future research priorities of the institute may include the following analyses: how can the public sector influence Hungary's competitiveness and what are the defining factors of the public sector's competitiveness. Closely linked to these questions, SAO's future evaluations will cover the performance and efficiency of large community

supply and distribution systems, subjects that are also included in SAO's important strategic objectives. The list of the Research and Development Institute's studies clearly demonstrates that the institute has also produced studies with a valuable research work in this subject area.

Finally, when the priorities of the institute's activities are set, there is certainly a need to take into account the important fact that the strategy highlights the significance of combating corruption and revealing the causes and risks of corruption. This is also one of the subject areas in which the institute has done considerable research work for years, and in the years 2007 and 2008, together with the Dutch SAO the institute conducted a successful "twinning light" programme. There is every reason to expect that the institute will deal with corruption as a priority in the future. SAO's management has recently made a decision that it will submit a tender bid to the National Development Agency for a development project addressing anti-corruption as a continuation of the twinning light programme. According to a preliminary concept, the institute will also be involved in the programme as a professional participant, the programme will offer an opportunity to utilise the results of the Hungarian-Dutch programme by helping other participants, such as the ministries and other organisations financed by the state budget to

assess and reveal corruption risks and to prepare a policy line on integrity.

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The title of the study assessing the professional progress of the US State Audit Office is self-explanatory: The Evolution of the General Accounting Office: From Voucher Audits to Program Evaluations.³⁵ In my comprehensive study I made an attempt to take a road similar to the concept represented by the above quoted title, while focusing on the progress of the advisory activity of the State Audit Office. An attempt was also made to draw the readers' attention to this important development path of SAO's modernisation of its activity. It was also my intention to demonstrate that State Audit Offices in the world – and the SAO of Hungary specifically – no longer limit their activities to traditional audit activity, a function aimed at detecting faults and at initiating possible sanction. Increasingly, they are also dealing with risk analyses which usually concentrate on various aspects that may jeopardise the operation of public finances. Today, they also conduct audits, assessments and professional opinion-orienting advisory work which can effectively assist parliamentary decisions and the solution of problems related to public finances. Depending on the various impacts and correlations reflected in the economic and social developments and in the world economy, SAOs increasingly also contribute to optimising leadership decisions.

NOTES

¹ For the different periods of financial audit see Benjamin Geist's Introduction (1995) in: Studies in State Audit, page 1. One of the important German literary sources on the several hundred-year history of European audit institutions available to us comes from the German audit office: Bundesrechnungshof (1964). Of the Hungarian works, two specialised textbooks need to be mentioned: Árpád Kovács (2003/c) and László Nyikos (2001)

² A new element in SAO's activity is – according to the document – is that audit themes are selected within its range of possibilities so as to provide a comprehensive picture within the framework of a separate analysis about the specific processes in a given area, about typical problems and changes and the reasons behind them by using the reports prepared on certain areas of the national economy during 3-4 years. State Audit Office (2002), page 9

³ State Audit Office (2002), page 6

⁴ State Audit Office (2006), pages 4 and 8 and State Audit Office (2008), Manual 4, page 6

⁵ The same document points out that in addition to the above, SAO's research institute prepares various studies by analysing and summarising its audit experience and by using various research results, sources of professional literature and statistics, etc. These studies are used in the course of conducting professional opinion-orienting advisory activity as well as in the parliamentary and government work and they can also be accessed by other users, universities, domestic and foreign research institutes. State Audit Office (2008), Book 5, page 114

⁶ The main strategic objectives and key tasks include the following: SAO initiates and assists the renewal of the procedures applicable to the operation, planning, accounting and control of public finances, and, linked to it, the elaboration of a full and consistent (re)regulation of the financial management of state assets. It calls for performance audits that facilitate the more efficient operation of large community supply systems, as well as for comprehensive analyses and assessment relying on them. In addition, it detects the risk factors related to the relationship of public finances and the private economy and to their new investment and development cooperation, it assesses the degree of regulation of projects that are under construction and the efficiency of the applied financial arrangements. It also investigates the causes of corruption as well as areas and processes which represent increased risk. State Audit Office (2006), page 6

⁷ State Audit Office (2006), page 6

⁸ “The concept and establishment of audit is inherent in public financial administration as the management of public funds represents a trust. Audit is not an end in itself but an indispensable part of a regulatory system whose aim is to reveal deviations from accepted standards and violations of the principles of legality, efficiency, effectiveness and economy of financial management early enough to make it possible to take corrective action in individual cases, to make those accountable accept responsibility, to obtain compensation, or to take steps to prevent – or at least render more difficult – such breaches.” (Lima Declaration, Section 1 – INTOSAI ISSAI 1, translated by Malatinszkyné dr. Irén Lovas and Zoltán Gidai, 1999). Furthermore: “When necessary, Supreme Audit Institutions may provide

Parliament and the administration with their professional knowledge in the form of expert opinions, including comments on draft laws and other financial regulations. The administrative authorities shall bear the sole responsibility for accepting or rejecting such expert opinions; moreover, this additional task must not anticipate the future audit findings of the Supreme Audit Institution and must not interfere with the effectiveness of its audit.” (Lima Declaration, Section 12)

⁹ “Supreme audit institutions often carry out activities that by strict definition do not qualify as auditing, but which contribute to better government”.... “These non-audit activities provide valuable information to decision-makers and should be of consistently high quality.”

¹⁰ “A degree of co-operation between the supreme audit institution and the executive is desirable in some areas. The supreme audit institution should be ready to advise the executive in such matters as accounting standards and the form of financial statements. The supreme audit institution must ensure that in giving such advise it avoids any explicit or implied commitment that would impair the independent exercise of its audit mandate .”

¹¹ State Audit Office (2008), page 13

¹² Árpád Kovács (2003/c), page 237

¹³ Gusztáv Báger (2006), page 248

¹⁴ State Audit Office (2008), page 14

¹⁵ Bourn, Sir John (2006)

¹⁶ Based on a long tradition dating from the era of the Weimar Republic, the prevailing president of the German Federal Audit Office (German acronym: BRH) fulfils the post of Federal Commissioner for the efficiency in administration (in German: Bundesbeauftragte für Wirtschaftlichkeit in der Verwaltung, acronym: BWV). Delegating this position of the federal commissioner to the president of the Federal Audit Office is, in principle, not automatic (as it is a separate function), but this is the general practice. Every time a new president is appointed as head of the BRH, the person is simultaneously assigned to the BWV-post.

The BWV endeavours to encourage more efficient performance of federal duties with its advisory activity through proposals, expert opinions and statements. On top of the federal public administra-

tion sector, it may also deal with separated state assets and with federal enterprises. The BWV may carry out a given advisory assignment upon the request of the federal government, a federal minister, any “part” of the federal executive (Bundestag, Bundesrat) or at his own decision. Ministers are obliged to inform the BWV of any organisational or other measure of financial significance, unless they had already done it towards the BRH according to a specific legal regulation.

The BWV may order data collection after prior notification is received from a competent ministry. The organisation affected by the data collection is obliged to assist the work. Before the BWV submits the prepared documents to organisations other than the government, the Bundestag and the Bundesrat, he must obtain approval from the competent ministry whose professional area the information, data collection results concern. (This limitation is in harmony with the limited access to a number of BRH audit reports.)

The salient part of BWV-documents represents 14 volumes published so far within an independent series of publication. The last five volumes are entitled as follows: 1 Allocation and utilisation of federal subsidies directed outside the federal sector and serving public duties; 2 Federal motorways – Planning, Construction, Operation; 3 Federal subsidies for overground construction projects; 4. Problems in implementing tax laws; 5 Involvement of external experts in federal public administration. Apart from the volumes published in the series, there are more, generally shorter BWV papers (a few-page statements, etc.). The BWV documents have no unified structures – as they are of different length, type and purpose. The structural solutions applied are in any case similar to those of the BRH thematic reports which likewise have no uniform structure.

¹⁷ Fuchs, Arthur (1966)

¹⁸ It reads in thesis number 7: “...the activity of supreme audit institutions, the publicity of their audit experience and their communication to the public constitute an essential part of the self-learning process of the society. An audit result consists not only in revealing concrete irregularities, enforcing the proper utilisation of public funds, but also in reinforcing society’s awareness of standards and norms. Therefore, I regard it an important question that SAO audit findings should be utilised widely and the advisory and service character of SAO should be strengthened.” Árpád Kovács (2003/a), page 27

¹⁹ Árpád Kovács (2003/b), page 18

²⁰ The message of the parliamentary contribution was that “...the State Audit Office gives an opinion on the soundness of the budgetary bill in accordance with its legal obligation. Fifteen years ago when the organisation was set up this activity of SAO represented a unique legal stipulation. Today similar concepts and recommendations are requested from the audit office in most countries of the European Union. The above opinion, however, does not form any judgement on political, economic policy decisions, so as Mr Minister has pointed out it avoids the questions of “why” and “what to do”, instead it attempts to focus on the risks connected with the toolbox of implementation, and usually highlights the question of “how to do”. Thus, in its advisory activity also encouraged by Parliament, the Audit Office does not qualify economic policy decisions. But for the first time as a result of the encouragement, SAO will address the main international economic correlations and trends in some detail that should receive somewhat more attention than in the past, and should form its opinion on the budget in a broadening horizon based on sound theoretical foundation.”

²¹ In his presentation titled “Reform and Control” delivered at the Financial Summit of August 2006, the president of SAO highlighted that it is not the duty of supreme state audit institutions to judge the economic policy and fiscal policy of prevailing governments. It is however very much the duty of audit institutions to examine the sound foundation of actions aimed at implementing the above policies, the risks associated with the sustainability of the processes leading to the goals and the related discrepancies. It is also their responsibility to tell to the public what conclusions they have made, what risks they envisage, where they regard corrections necessary and, moreover, they should give advice and methods to situation analysis and to decisions on selecting development paths based on but pointing beyond direct audit findings in certain cases by directing attention to the relevant economic correlations and macroeconomic trends. Árpád Kovács (2006/a)

²² At the Conference of Young Researchers, Gödöllő, October 2006, Árpád Kovács dwelt upon the following: “... due to our legal status defined in the Constitution, it falls outside our scope of activity to conduct policy analysis of the economic policy and fiscal policy of the government and measures designed to contribute

towards their implementation. At the same time, we do feel responsible and assume responsibility for forming an opinion – based on the audits – on the sound foundation of actions aimed at implementing the economic and fiscal policy and for calling the attention to the risks of the measures aimed at accomplishing our goals and to the necessary corrections. This becomes possible because our audit experience is not only published in official reports issued by the audit office which are accessible to anyone on our homepage. We try to systematise, analyse and publish the most important lessons of the audits taking also account of wider economic correlations. This is usually referred to as SAO advisory activity in international practice. It is naturally the *de facto* audits and the reports issued by the audit office that represent our main products through which we meet our legal obligation. On top of about 50–70 official audit reports, advisory activity is gaining more and more ground in keeping with international trends and the recommendations of INTOSAI.” Árpád Kovács (2006/b)

²³ State Audit Office (2008) pages IX-X

²⁴ The Preface written by the president is basically about an advisory publication: “... Our publication, first of all, intends to facilitate the difficult and responsible work of MPs by providing information and raising awareness. It is especially important, because there are a number of new MPs in the current parliamentary cycle who have rarely or have not come across with the reports of the State Audit Office. This is exactly why our message is often geared at spreading information, which also serves the purpose of orienting the readers' opinion.” State Audit Office (1994), page III

²⁵ The above can be demonstrated by Parliamentary Resolution 43/2005 (V. 26.) according to which Parliament considers it necessary that “... within its advisory activity the State Audit Office (...) should continue its summarising and analytical work which is published in studies focused on certain groups of problems, and it should issue an up-to-date financial journal.”
In its Resolution 47/2006 (X. 27.) “Parliament agrees with the objectives of SAO's Strategy 2006–2010 and in line with them it promotes that (...) through its audits (SAO) should specifically assist in the modernisation of public administration and the efficient operation of public finances.”
In its Resolution 41/2007 (V. 23.), the supreme legislative body “calls SAO to use its tools to help the

research and analytical work conducted within the framework of the government reform.”

In its latest resolution – Res. 72/2008 (VI. 10.) – Parliament ratified the objectives laid down in SAO's Strategy 2006–2010 and set forth that “...the organisation should continue its advisory activity and make it a regular practice, and should apply – in developing audit activity – high priority system-oriented performance audits which are also suitable for the economic assessment of professional programmes”

²⁶ “...the studies and analytical background materials can also be well utilised in the sense that they serve as a basis for university training programmes, they prompt new research in PhD courses and various research institutes, and provide points of reference which are also assisted by the growing number of SAO publications in professional periodicals.” Gusztáv Báger (2008), page 120

²⁷ In conclusion of the document – on page 23 – the State Audit Office underlined that “...those highlighted to the government affect in their entirety the overall system of public finances and public assets. Although a part of these does not result in immediate savings, we are nevertheless convinced that their favourable impacts can be quantified even in the short run. The above, however, makes it necessary to devise a uniform government action plan and to implement it consistently.”

²⁸ Árpád Kovács (2006): Observations about the convergence programme, Public Finance Quarterly, Number 4

²⁹ According to the Deed of Foundation “The basic task of the Institute is to support SAO in fulfilling its legal obligations, and improving external audit function through performing scientific research activity, while paying special attention to setting strategic objectives, as well as to its advisory role provided to the National Assembly and the (financial) government.”

³⁰ This is illustrated by the list – in a chronological order – of the most important studies published by the institute since 2003:

- Ten years' of impatient care – components of a possible therapy
- The operation and control of the non-profit sector
- Privatisation in Hungary
- Medicine consumption and financing and the audit experience of the State Audit Office in the recent years.

- The transformation of higher education, the modernisation of financing
 - From research to innovation – the present state of D+R activity, certain aspects of its efficiency and financing in Hungary
 - Environmentally conscious economic management and sustainable development in the light of regulation and audit experience
 - State reform, the reform of public finances: International trends and domestic challenges
 - International and domestic experience in connection with PPP
 - The competitiveness of the public sector and the economy
 - An evaluation study about certain correlations of the macroeconomic soundness of the 2008 budget bill
 - The costs of the tourism-related studies of the Balaton Region, their justification and utilisation in the 17 years since the change of the political system
 - A comprehensive and exploratory study about the degree and efficiency of support granted to improve and develop the conditions of the Gypsy population in Hungary since the change of the political system
 - An evaluation study about certain correlations of the macroeconomic room for manoeuvre in the 2009 budget planning
- ³¹ The Research and Development Institute of SAO (2008/a)
- ³² The Research and Development Institute of SAO (2008/b, (2008/c)
- ³³ State Audit Office (2007)
- ³⁴ Pál Csapodi (2007)
- ³⁵ Even the expressive title of the comprehensive study about the history and professional progress of the US Audit Office alludes to its evolution from voucher audits accounts to programme evaluation, which shows the development direction and content of the American sister organisation.

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