

Pál Csapodi

The key messages of the theses on the regulation of public finances

T*he Republic of Hungary inherited serious external and internal public debts at the time of the regime change. In the early 1990s, financial instability was intensified by a drastic drop in the production and employment levels. The system of public duties built in full employment was not possible to be maintained. As a result of the reforms and constringent measures carried out, the country's financial standing was consolidated by the mid-90s, and kept improving until 2001. Subsequently, however, the financial balance was lost again. Public overspending, which was particularly seen in election years, only improved the conditions of economic growth temporarily. By the middle of the decade, unsettled public finance became a drag on economic competitiveness, and weakened the foundations of sustainable development. The operation of the local government system represents serious risks from the perspective of both financial equilibrium and the absorption of EU funds. All these necessitate comprehensive re-regulation of public finance.*

GOALS FOR THE NEW REGULATION

Renewing the regulation of public finances serves a dual purpose. The direct goal is to establish rules and institutions and to find

technical solutions that render public funds management more transparent, predictable and efficient at the level of the national economy, local governments and institutions. The ultimate goal is, however, to improve the internal and external conditions to competitiveness and sustainable development by means of a better system of public finances and financial balance with increased confidence in it.

THE ROLE OF THE STATE AUDIT OFFICE IN THE RENEWAL OF PUBLIC FINANCE REGULATION

Based on its experience gained through producing audits, opinions on budgetary bills and final accounts, the State Audit Office has tabled multiple proposals for a comprehensive modernisation of regulating public funds management. In order to catalyse the renewal of regulation, the SAO offered to lay the foundations of a new public finance regulation. The SAO was not lead by an intention of extending its audit licences in the process. On the contrary, our experience proved that subsequent auditing tools provide no remedy for public funds leaking for structural reasons or for overspending driven by political inten-

tions. Consequently, more regulation, transparency and predictability need to be added to the entire management of public funds.

During the groundwork headquartered in the Research and Development Institute of (RDI) of the SAO, a number of constituent studies have been produced – with the involvement of external experts –, international experience reviewed and professional debates held. The most relevant documents will be subsequently published by the RDI in a dedicated volume of studies. The study summarising the research is accessible at the SAO's home page at www.asz.hu.

As an organisation reporting to the National Assembly, the State Audit Office attempted to word its proposals in a way that facilitated direct utilisation in the legislative work as much as possible. A compilation entitled *Theses on the regulation of public finances* (hereinafter referred to as the *Theses*) published in this issue contains the major principles, breakout points and methods of the proposed regulation, organised under points. On wording the theses, we primarily attempted to highlight issues important for political decision-making, avoiding a too deep and detailed description of professional implications.

THE OBJECT OF PUBLIC FINANCE REGULATION

Very consciously, the *Theses* do not address a renewal of the public finances act, only regulation of public funds. A modern attitude to the state and public sector requires the scope of public finances regulation to be systematically extended to organisations managing public funds outside the state budget. This is how we are able to meet global challenges, European requirements, but this is also what our domestic experience suggests. In the past

few years, a global tendency whereby organisations outside the public finances play an increasing role in performing public duties has also evolved in Hungary. Audits performed by the SAO have revealed that the risk of public funds leakage is the highest at the points where the public and private sectors meet. Only a new approach in the regulation can eliminate this risk, where the application of public funds is in the focus of regulation instead of the organisation of public finances. At the same time, the notion of public funds should be construed extensively: all revenues under public law (including waived taxes), contributions to public services, the portion of state assets represented by funds and all revenues from the utilisation of public assets should be deemed as public funds.

GRADUALITY IN RENEWING PUBLIC FINANCE REGULATION

The renewal of public funds management is probably not possible by passing a single law, or incorporating a few easy-to-implement thoughts of the *Theses* in the existing regulation. Besides renewing the entire legal regulation, the *Theses* offer proposals for a systematic re-regulation of certain blocks in the public funds management. Certainly, it is not a duty of the SAO to decide whether the legislator should regulate certain blocks in a single law or in various laws. An indispensable requirement is to regulate the financial relations of the central and the local levels in a more stable and transparent way compared to the current state, adjusted to the changes evolving through the distribution of tasks. Ultimately, modernisation may be implemented without modifying the Constitution, but the reform would be complete if a chapter designating a constitutional framework for public funds management was added to the Constitution.

THE THREE KEY MESSAGES OF THE THESES

The most important message of the Theses is to lay the regulation of public funds management on solid foundations and enforce the principles through the entire regulation. The Theses lay down the key principles and outline the courses of regulation along the lines of which these may be enforced. We consider it important to reach a political and societal consensus on the principles.

The second emphatic consideration of the Theses is the importance to consolidate budgetary discipline. This is certainly not possible through casting a spell. Rules should be adopted to prevent exceeding budgetary limits in the first place. In addition, internal and external audits need more coordination.

The third message of the Theses to be highlighted is that modernisation has not left public funds management intact. Our accession to the European Union and to other international organisation justifies reflecting the standards developed by these organisations for the public sector also in the Hungarian regulation. The technologies of budgeting and financial management have developed. The development of information technology requires the key rules of the public funds information system to be formulated also at the level of legislation. The application of these should be given way or even cleared the way in the Hungarian public funds management.

In the continuation, I will explain these three messages in more detail.

THE THEORETICAL FOUNDATIONS OF PUBLIC FINANCE REGULATION

A few principles of public finance regulation are a consequence of the democratic nature of the state. On formulating other principles, the

documents of multiple international organisations may be considered to be a part of the basis, as these organisations have in the past 10–15 years declared and compared a number of principles of “good governance” with the practice prevailing in certain countries.

■ *The principle of representation of the people* is derived from our democratic form of state, which states that the application of public funds should be decided by those that have received political authorisation to do so and are responsible for it in front of their voters. Enforcement of this principle presumes that the elected representatives are able to exercise these rights substantially, and at the same time, they are accountable on elections for exercising this right.

The currently effective regulation has granted unjustifiably great liberty to the executive levels – for over ten years – in terms of regrouping the various appropriations adopted in the budget act, while the proposed and accepted budget acts in their current forms are unsuitable for political bodies to reorganise fiscal processes through substantial decisions. In terms of settlement, the voting units are incorrectly designated, and, as a result, even decision-makers are frequently in no position to pass decisions. Off-budget risks directly or indirectly affecting public finances are represented unpredictably in the accounting. Without addressing this problem, the propagation of solutions relying on partnership with the private sector will add to the intransparency of public finances.

A key requirement to implementing the principle of representation of the people is that material changes to the appropriation may only be performed by an elected political body. This conflict may be managed, on the one hand, by way of application to real decisions, i.e. distinguishing appropriations according to the influence exerted on them by the current decision-making process. In the presentation of the

budget, it needs to be positively represented that the current decision-maker has a restricted opportunity to pass decisions not only in terms of time but also in terms of contents related to revenues and expenses. A key issue is to make the establishment of adequate voting units¹ the basis of budgetary decisions. Politics should decide on aggregates that adequately promote political preferences.

■ *The principle of limited authorisation* comprises three elements. On the one hand, the government (the executive body of local government) is under an obligation of execution compliant with the accepted budget, which is a preliminary authorisation. On the other hand, the authorisation of the executive power has a definite term, which is typically one year. The third element is that earlier decisions and other determinations have a significant impact on revenues and expenses represented in the budgets for the relevant year. Economic management in public finance and the various processes, however, cannot be linked to the closure of budget years. Life goes on after the start/end date of each budget year. The promotion of this principle is able to ensure transition between the principle of representation of the people and reasonable operation, if budgeting and implementation are able to handle this conflict. The principle of limited authorisation may become a source of real conflicts, as the continuity of financial management requires commitments for multiple years, while adjustment claims derived from environmental and other factors require a possibility of making changes within a year. Incorporation of clear-cut rules applicable to this in the system of rules of approving and modifying the budget is not contrary to the principle of limited authorisation, if such rules are transparent and truly exceptional in nature.

■ A starting condition of promoting *the principle of transparency* is the clarity of the system of rules and the legal environment. Setting up

the recommended new regulation – to our conviction – would represent major progress in this field. Based on clear and traceable regulation, transparency of collecting and applying public funds can be enforced, irrespective of the economic actor performing them. Enforcement of this is particularly important when – in harmony with international trends – the significance of performing public duties based on various partnerships increases in Hungary, too.

Based on the relevant document issued by the International Monetary Fund, enforcement of the principle of transparency is ensured by

- unambiguous definition of tasks and scopes of authority;
- wide availability of the information generated;
- publicity of preparing, implementing and reporting on the budget;
- fair financial management.

It is important to emphasize that practical accountability for this requirement may be implemented by way of identical structures of budgets and reports.

The transparency of the budgeting process and the document ensures accountability of the governing power, which is a fundamental condition of fair competition among political parties. This principle is fully enforced if the accepted budgets are implemented. Any processes deviating from the budgets in any direction question the trustworthiness of governments.

■ Promotion of the *principle of publicity* is an important peculiarity in the operating frameworks for the rule of law. For public funds, no direct ownership control is in place, and market consumers' control is only indirectly present. At elections, it is publicity, in addition to the authorised political bodies, that represents the greatest deterring force in terms of avoiding all kinds of irresponsible financial management, political manipulation and crimes (including corruption).

Today's technological facilities represent almost unlimited potentials for publicity. This principle should be promoted over the whole system of information management, and the “toleration” of publicity should be made mandatory for organisations performing public duties but not operated under the state budget control.

■ The *principle of controllability* means that control mechanisms used to prevent improper use, inexpedient and uneconomical spending of public funds should be present in each phase of defining tasks, allocating funds (irrespective of the legal status of the user of public funds), as well as reporting on and settlement of application.

■ The *principle of financial substantiation* means that the political preferences should be expressed in the financial plans produced observing the relevant rules, which are at the same time legally accountable. This principle also means that political decisions are passed through a feasibility filter. The process of planning and accepting the budget may be the “technological” and procedural curbs to a one-sided representation of political considerations. The rule-based budgeting practice, i.e. the application of various rules requiring efforts to reach budgetary equilibrium reinforces the promotion of this principle.

■ Substantial representation of the *principle of foresight* would be an aim of methodological renewal of budgeting. In the past one and a half decades, overspending for political reasons then the management of the resulting financial crisis have caused considerable damage to the country. In the present budgetary process, hardly any role has been assigned to modern budgeting techniques. The traditional budgeting practice not based on performance is unsuitable to lay the foundations of structural changes to expenses to an extent necessary for substantial changes, or to finance new tasks adequately, to forecast the future consequences

of long-term decisions on expenses, and to enforce the requirements of efficiency and results related to spending. The promotion of the principle of foresight requires a strategic approach to be adopted in each area of public policies.

What combined representation of the principles of sustainability and balance means is not merely that the current balance of public finance approaches equilibrium. It is certainly also a very important criterion, as a permanently high current deficit leads to severe indebtedness and an unsustainable situation, and ultimately to a financial breakdown. Sustainable equilibrium, however, also means that no tensions risking economic development or social cohesion are present on the income and expense sides of public finance. For instance, public dues are fairly and predictably distributed, expenses are not influenced by interest groups hunting for commissions and by short-sighted political interests. It is very important that sustainability is ensured through agreements between various types of economic actors (employers, employees), and between various generations – “visible” or “invisible” socio-economic agreements, for example social contracts between generations.

■ Firstly, the *principle of completeness* means that each actor should give a fully detailed account on the public funds used. The various financial statements should be produced under the principle of gross settlement. In addition to subsidies from the budgets, the fees paid for public services also constitute public funds, and the application of these should be accounted for just like revenues from utilising state assets. Uncollected public funds (tax allowances and exemptions) and outstanding receivables should be disclosed. The principle of completeness is also important to be emphasized because off-budget liabilities have significantly increased in terms of public financial systems, and so have off-balance sheet items, mostly

future liabilities, represented in the state budget. The principle of completeness is implemented if these items are properly reflected in the government statistics and reporting systems.

■ Using the *principle of specification* means that spending, the actual budgeting process and the financial situation are available for decision-makers and taxpayers to study. The principle of specification can be overused. This is the situation today when presentations make it hard to see the woods for the trees. The principle of specification requires concurrent representation of administrative, economic and functional presentation – and with clear compatibility.

■ The *principle of authenticity* means that the items represented on both the revenue and the expense sides within the public finance system signify actual resources and spending related to actual rendering of public duties. The current practice of public finance settlement represents a significant tax content under the various expenses, which prevents the promotion of this principle.

REINFORCING BUDGETARY DISCIPLINE

Based on the experience of the past years, the new public finance regulation should no doubt serve the purpose of reinforcing budgetary discipline. In line with EU requirements (convergence and stability), it is necessary for the system of rules for public finance to contain requirements to reach and maintain equilibrium. These are customarily termed budgetary (fiscal) rules or budgetary policy rules similarly to monetary rules or monetary policy rules. In the Theses, the term 'budgetary rule' was applied.

The negative impacts of overspending, demand for a stable national (or regional) currency and the financial vulnerability of national economies have led an increasing number of

countries to a recognition that budget policy should be forced among pre-defined (strict) rules, i.e. a rule-based budgetary policy should be pursued. Rules are basically used for two aims:

- to stop budgetary overspending, and
- to create space for anti-cyclic budgetary policy.

These two aims are interrelated to a certain extent. On the one hand, because budgetary overspending and the rigid rules restricting it eliminate the possibility of implementing an anti-cyclic budgetary policy. On the other hand, budgetary overspending is often caused by the fact that the commitments assumed in “good” years can only be complied with by the state in “bad” years through indebtedness.

Budgetary rules are often not formulated alone but as a part of a comprehensive economic (adjustment) package. They are varied in terms of legal forms. In certain cases, the budgetary rules are recorded in countries' constitutions. More frequent is regulation in other laws, for instance, in a comprehensive law on finance. There are examples where the law establishes the major principles only, while the rules of procedure that ensure the desired results are detailed in lower level legislation. Rules may be applicable to the country's central budget or to budgets within the country (e.g. provinces).

In terms of contents, budgetary rules may be classified in three groups:

- rules designating targets;
- procedural rules;
- rules specifying sanctions and correction mechanisms for a case targets are frustrated.

Rules designating targets in various countries are used to stipulate a level of deficit (surplus) in the current budget, and to define the maximum proportion of public debts.

Procedural rules may be the provisions that stipulate substantiation and transparency of budgeting, and disclosing authentic informa-

tion on budgetary processes. In addition, provisions of law require equalisation funds or reserves to be generated in a number of countries – particularly where the indicators of national economy show significant fluctuation.

In case budgetary targets are frustrated, various replenishing and other corrective measures may be enforced. Particularly typical are these rules of cases when the budgetary limits of units within a country are exceeded.

The budgetary rules are apparently the most efficient when stipulated in high-level legislation. Experience, however, is contradictory. The rules recorded in the Constitution and in laws are often too simplified, rigid and hard to change. Compliance with such generates serious losses at times, on the one hand. On the other hand, such rules motivate certain governments to apply creative accounting and various tricks to eliminate the restrictions deemed irrational. And this is what leads to even more serious problems, loss of credit, covert indebtedness. Consequently, – according to certain opinions – it is expedient for the current government to record and publish the budgetary rules they intend to follow, and keep to them.

Considering this international experience, it is expedient to establish budgetary rules that enforce the requirement of equilibrium for the Hungarian budget. The recommended starting point is that comprehensive requirements of equilibrium for Hungary are clearly determined by the convergence programme, then, following accession to the Euro zone, by the Maastricht criteria. Consequently, the rules applicable to Hungary should contain regulations that prevent an excessive deficit at the root: provide no facility for over-budgeting for revenues, for automatically exceeding the majority of expense appropriations, overspending from social security funds or dedicated state funds.

A development of recent years is that the financial risks incurred by the local govern-

mental sector has an increasing role among the factors jeopardising stability. Handling these by adequate rules, re-regulating the conditions of borrowing and other long-term commitments is a task that cannot wait. On these grounds, the following types of budgetary provisions should be reasonably incorporated in the new regulation:

It may be required for the central level, for instance:

- mandatory equilibrium of off-budget funds, no borrowing is permitted;
- the debt service of central budgetary debts and the reduction of public debt should be financed from the primary budgetary surplus;
- liquidation of assets or concession revenues should be used to repay public debt;
- an upper limit to government guaranty or warranty.

It is reasonable to record for local levels that, for example:

- there is no passage between the current and accumulation budgets, and the current budget cannot generate a deficit;
- local governments may borrow liquidity and capital investment loans (the upper limit of indebtedness should be restricted – following adequate modelling –, subject to financial capacity), and guarantees and accounts payable should be considered when calculating the loan portfolio;
- liquidation of assets or concession revenues should be used to repay local government debts.

These rules, also currently effective in part, are capable of guaranteeing long-term financial sustainability of the whole budget, if complied with. Accountability for these rules may be ensured by clear-cut rules of the financial management. In addition, a more transparent and stable regulation of sharing public dues is necessary for welfare systems affecting multiple generations and high-value developments to

enforce the principle of sustainability, compared to the current one.

In order to reinforce budgetary discipline, the regulation related to auditing public funds should also be reconsidered. Based on various documents issued by INTOSAI, the International Organisation of Supreme Audit Institutions, the principles of external auditing in the governmental sector need regulation. For internal audits, the standards of the Institute of Internal Auditors (IIA) are justified for use. On re-regulating the audit system of the public sector, the triple requirement of effectiveness, efficiency and economy is deemed necessary. Audit performed on an effectiveness basis facilitates public funds to be spent in a compliant and expedient way, reduces the financial and operating risks of the public sector, and contributes to the promotion of transparency. It is not indifferent, however, what resources and cost relations were used and met to achieve results. We consider it desirable to enforce the requirement of effectiveness beside better utilisation of existing capacities and cost-efficient solutions. It is important to define the various auditing organisations, and the distribution of work among them. A reference should be made to the facts that an important role is assigned to professional audits besides financial audits, and that cooperation between financial and professional auditing organisations is necessary.

For local governments and state funds, the current form of private audits – not denying the importance of its role – needs reconsideration, and a closed system of these should be established. The auditing system of the local public finance level should be regulated cautiously – in line with the peculiarities.

The full enforcement of the principle of controllability as discussed above does not, in its initial phase, mean the strengthening of external and internal audit functions, instead, it

means that control mechanisms aimed at preventing the ineffective, inefficient, and uneconomical allocation of public funds should be in place in each phase of the definition of duties, allocation of funds (regardless of the legal status of the entity using the public funds) and reporting on and accounting for such funds. It is only by building on such internal mechanisms that post-facto internal and external audit functions can be defined better and more specifically. The role of independent internal audit is to ensure that internal control mechanisms are adequate, and that operational risks are identified.

Besides creating the organisational conditions of internal controls it is necessary to elaborate a system of performance indicators that follow the process of spending the funds from the moment of planning through the implementation phase all the way to reporting/accounting. Performance indicators open an opportunity of monitoring financial or professional processes and of controlling functions at an organisational level, branch level or government level, which also enables interference if necessary.

Upgrading regulation requires the enactment of the key sections of the present legislation of statutory regulations and government decrees, and bringing the concepts and solutions in line with international standards.

MODERNISING THE PROCESS OF BUDGETING, FINANCIAL MANAGEMENT AND REPORTING

Many of the countries ahead of us have proved that performance requirements towards the whole public sector, its branches and individual actors result in a surplus. Especially important is the adoption of the principle of performance orientation as early as on budgeting, because this element of financial management decisively determines the other processes of economic

management. On planning appropriations, the purpose of the recommended expense, the method of achieving the goal, the proposed resources and justification for the expense amount should be presented. Performance indicators should be widely used for designating and calling to account for goals. In case of changing appropriations, the same requirement should be enforced.

The practice of the domestic budgeting process needs comprehensive renewal. The current baseline budgeting is unsuitable both for enforcing performance requirements and for laying the foundations of the necessary structural changes. The current practice of residue planning conveys unilateral fiscal considerations towards the actors within the sector, who use adequate techniques for formally adapting to these restrictions, but are incapable of substantially renewing their financial management. There is no alternative to pursuing the goals of financial equilibrium, however, without in-depth changes, the re-generation of equilibrium problems is inevitable.

Performance orientation is ensured by a requirement to apply the practice of programme-based budgeting to specified areas of expenses, to monitor the implementation of the budget, and to institutionalise performance auditing.

The expense side budgeting needs to be performed in two major groups. A part of expenses continues to be planned in an institution-centred way, using the resource requirement for maintaining the capacities seen as necessary. In the new regulation of public finance, we recommend these to be termed as institutional² budgeting. Typically, this principle is applicable to organisations of public authorities, i.e. state organs, administrative, judicial, defence areas, as well as law enforcement. Performing duties here may only be exceptionally assigned to an organisation outside the central budgetary control. The voting unit in this case is an institu-

tion. For institutions, a few basically characteristic natural input details (headcount, office space, number of pieces of equipment, etc.) are also used as the basis of the appropriation. Budgetary decisions here apply to the recognition of justifying planned resources. Planning these capacities does not necessarily mean budgeting from the baseline. It is possible that, on using various due diligence processes, a particular capacity can be provided through a different combination of resources, and it is also conceivable to produce an expense item for a new task by way of zero-based budgeting. The point in this case is that no accountability for the quantity of specific services (e.g. number of convicts) and impacts (e.g. a reduced number of robberies) can be demanded. On amending sectoral laws – e.g. if the technical parameters of prisons are intended to be changed – a financial impact study may be based on the projected resource parameters.

In order to improve performance orientation, it is desirable to budget a significant portion of expenses as programme-based, and this proportion – due to improving extent of preparation – should grow in the course of years. When using programme-based budgeting, another issue to be decided is the legal status of the organisation that performs the tasks, given that off-budget organisations may also be suitable to carry out programmes financed from public funds.

Programmes may be permanent or temporary. For permanent programmes, some expenditure appropriations may be determined as a result of earlier decisions, which are not voted on. Accordingly, the budgeting document will contain appropriations disclosed for information purposes, appropriations mandatory as a result of earlier determination, and (free) appropriations subject to actual decisions. This is where the requirement to attach a financial impact study to the acceptance of each law on providing sectoral services gains importance. In

Figure 1

STRUCTURE OF PROGRAMME-BASED BUDGETS			
	Major programme	Programme	Sub-programme
Type	Government function	Voting units	Measure
Decision-maker	Government function	National Assembly/or representative body of local governments	Government/or representative body of local governments
Responsibility	Cabinet minister or a delegate	Undersecretary or a delegate	Institution head or delegate
Approximate number of items	30–40	200–300	1500–2000
Example 1	Education	Higher education	Determine an admission limit for each field of education
Example 2	Environmental protection	Sewage treatment	Construction of a sewage treatment plant increasing fines
Example 3	Education	Public education	Funding normative state contributions funded by teaching job Development of local government participation

the possession of this, the political body is able to exercise its budgetary rights. The structure of programme-based budgets is shown in the *Figure 1*.

Placing the budget on performance bases requires a new approach in reporting on implementation. An important function of reporting is to present the performance dynamics, in addition to calling to account. For the units subject to the practice of programme-based budget, reporting on the programme adjusted to the life cycle of the programme (capital expenditure, government action), i.e. aimed at presenting the results thereof is also necessary in addition to periodic reporting and reporting in the final account. In the area operated under the system of institutional budgeting, only reporting on monitoring and final accounts are necessary. The final account document shall consist of a numerical financial report and a report on the implementation.

It is our conviction that the later the transition to the new budgeting methodology, the

slighter the chance for parallel public policy reforms to achieve their actual goals.

The practical implementation of the principle of being performance driven depends, in addition to the modernity of planning, primarily on the quality of internal control. By internal control we mean both the system whereby the financial management of government (local government), ministries, and the associated institutions (appropriations, funds) are run, and the control systems within the individual budgetary institutions. Upgrading internal control systems has become an issue of key significance for several international organisations over the last few years. During that period they specified the most important standards in conjunction with internal control, and created numerous relevant standards. Some international organisations even stipulate the existence of an appropriate internal control mechanism in the agencies cooperating in using the funds as a condition to the disbursement of aids and loans. Using financial resources from the EU’s common budget is

conditional upon the minimum requirement that the national organisations receiving the funds should have an internal control mechanism compliant with the standards set by the EU. Despite these international tendencies domestic legislation fails to handle the issue in accordance with its weight. There are hardly any standards of internal control in governmental and local governmental systems, and the individual institutions have excessive freedom in designing their own internal control system without a detailed central requirement. However, some progress has been made over the past few years in some technical issues (e.g. risk analysis). While internal control systems are under-regulated, there is excessive emphasis on the internal audit system, which, in our best judgement, is positively over-regulated.

Both budgeting and on-going performance evaluation would suppose a management information system that is well founded, based on data immediately derivable from accounting and reporting information, but is clearly more than just that. Prescribing compliance with the practice of programme-based budgeting could trigger significant progress in this area. Before selecting the possible solutions, it is necessary to study best international practice, and the embedding of these in their own systems, and their legislative environment. As regards the management information system, it is sufficient to prescribe its mere existence so that the legislator empowers the government agency concerned or the local government to create it through a decree.

WHAT IS NEXT?

By formulating the theses on the regulation of public finance, the State Audit Office has produced a compilation to find a common denominator – necessary for the consent –, which, instead of closing, is intended to catalyse the work aimed at modernising the regulation of public finances. In the Theses, we did not intend to formulate a detailed regulation concept that could be immediately used for codification. On the contrary – in harmony with the act on legislation and the requirements of quality legislation –, we consider it necessary for detailed impact studies to precede formulation of rules. In the course of this, in addition to assessing the general social and economic impacts of a more modern but stricter regulation, particular attention needs to be paid to the institutional and structural changes necessary for new tasks, to establishing the conditions of adoption and that the rules applicable to the central and local levels of public finances should be duly differentiated and harmonised at the same time.

To conclude my article, let me thank the staff of the Research and Development Institute (RDI) of the State Audit Office of Hungary and the external cooperating experts for their work carried out in order to develop the “Theses on the regulation of public finances”.

With the participation of its research base, the SAO is prepared to take part in the future in the preparation of the new public finance regulation in the form of quality legislation.

NOTES

¹ A voting unit is the smallest unit of a budgetary decision, which contains expected results and expenditure ceilings in both textual and numerical formats. In other words, it is an obligation to perform duties, which contains a specific description of the task, the outputs of performing the task, the necessary physical resources, inputs (headcount, classification, the

amount of physical capital in a given case), and finally, the feasible expenditure ceiling.

² An institution is not an organisation. An institution (e.g. police) may consist of multiple budgetary institutions and organisations pursuing independent financial management.