(SLIDE1)

Public Management Reform

in Hungary

Dear Mr. Chairman, Ladies and Gentlemen, it is an honour that upon the gracious request of the State Audit Office of Georgia I have the opportunity to introduce the reforms, the recent changes in the public finances of Hungary.

In Hungary, the first decade of the 21st century was characterised by permanent budgetary overspending and the drastic increase of public debt. This could not be prevented by either the State Audit Office of Hungary, or by other independent public institutions, therefore changes needed to be made and new rules needed to be laid down.

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In 2011, responding to new international and national challenges the National Assembly adopted several cardinal laws, inter alia the new Act on Public Finances [1]. I am going to address two issues: firstly, I would like to tell you about the need for the new act. Secondly, I will talk about how the requirements of this act are met.

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There are three main reasons for the elaboration of the new Act on Public Finances: the New Fundamental Law of Hungary, new acts entering into force and the deficiencies of the Act on Public Finances.

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The Fundamental Law of Hungary has been effective as of 2011, replacing the Constitution that came into force in 1949. The 36th and 37th articles of Fundamental Law determined requirements about the budget bill, the execution of the budget and national debt.

The 'Public Funds' chapter of Fundamental Law stipulates that

[1] Act No. CXCV/2011 on Public Finance

- Every year, the National Assembly adopts an act about the budget and the execution of the budget in the same and transparent structure, which shall contain the revenues and expenditures in a reasonably detailed manner.
- The National Assembly cannot adopt a budget bill that causes higher national debt, than half of the total gross domestic products.

The Fundamental Law contains also further restrictions against budget overspending and the drastic increase of public debt. The Government has to execute the budget bill in a transparent and legal way, with effective and efficient use of public funds.

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Throughout last year and this year several relevant pieces of law have come into force. These acts contain more detailed regulations in context of the budget, the public debt, the state property and the structure of the public finance management.

The most important acts are the following:

- New Act on SAO
- Act on financial stability
- Act on national property
- New Act on local governments

Of course, the new Act on SAO is a reaction to external and internal challenges. Together with the acts mentioned they facilitate the accountability of public finances.

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There were a lot of deficiencies in the previous Act on Public Finances. The State Audit Office of Hungary made several recommendations for the elimination of these deficiencies, as well as for the elaboration of a new act on public finances, namely:

- Its structure was based on processes and not on the structure of the public finances.
- The cash-based accounting wasn’t applied consistently and uniformly.
- It contained many operational regulations theoretically.
- It contained regulations for local governments in the part of the central government.

- Its terminology was not consistent.

Furthermore, this act became a confused set of rules because of the continuous modifications and additions. These deficiencies caused difficulties in the area of audit also.

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The new Act on Public Finances narrowed the structure of state budget. According to the previous structure, there were four sub-systems:

- Budget of the central government
- Social security funds
- Separated state funds
- Local governments

In the new structure, the two funds are merged into the central budget, so there are just two main sub-systems of the state budget.

The new act enforces the rules of budget planning.

It contains simpler and more transparent regulations. Many detailed rules have been transposed into new acts and the operational rules have been included into the implementing provisions of the act. Several redundant and bureaucratic rules have been deleted, therefore the workload could be also reduced.

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The 61st article of the Act on Public Finances regulates the control and the audit of the management of public finances. It determines the aim of the controls:

The goal of controls of the management of public finances is to ensure the legal, economical, efficient and effective management of public funds and national property.

The act distinguishes three types of controls.

- External audit: This task is carried out by our office, the State Audit Office of Hungary.
- Governmental controls: Three organizations perform audits of the management of public finances on the level of the Government. The

Government has control over these organizations. These are the Government Control Office, the Directorate General for Audit of European Funds and the Hungarian State Treasury.

- Internal control system: The internal control system of the budgetary institutions. It also contains the system of internal audit.

The State Audit Office of Hungary takes into account the results of governmental controls and the internal control system as well, when carrying out an audit in the given areas.

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The new Act on Public Finances specifies the distinguished role of the State Audit Office of Hungary. According to its stipulations, the National Assembly discusses the budget bill along with the opinion of the State Audit Office of Hungary and the Act on the Execution of the Budget with the report prepared by the State Audit Office of Hungary.

Furthermore, the minister responsible for the management of public finances has to ask for the opinion of the State Audit Office of Hungary, when he coordinates and develops the regulation system of the internal control system of the management of public finances.

When the Hungarian State Treasury supervises the subsidies allocated to local governments, it has to take into account the findings and recommendations of reports of the State Audit Office of Hungary.

Thus, the Act on Public Finances ensures the distinguished role of our office, however the new Act on SAO enforces more guarantees for the efficiency thereof and the new structure of the regulations promotes the controllability.

Finally, I would like to shortly introduce the guarantees mentioned.

The new Act on the State Audit Office of Hungary entered into force on 1 July 2011. During the legislative act there was strong emphasis on the implementation of INTO-SAI standards. The act brought noticeable changes in Hungary, extending the audit mandate of the SAO, making its work even more transparent, and significantly strengthening its independence. The new act kept the ‘audit office’ type character of the institution, but - contrary to the previous practice – it makes the cooperation with the SAO obligatory and provides strong guarantee thereto by sanctioning the omission of this obligation. The purpose of the SAO's strengthened powers is to ensure that audits do not remain without consequences for those not acting in compliance with law. The new Hungarian legislation stipulates that in the course of the audits the audited entity shall provide the information necessary for the audit. Another significant change is that they are also obliged to prepare an action plan based on the recommendations of the SAO.

Besides our audit function, as it has been mentioned, we also have an advisory function. The National Assembly discusses the budget bill along with the opinion of the State Audit Office of Hungary. However, this opinion refers only to the budget bill and not to the budget adopted. This important control task is delegated to a new institution, the Fiscal Council. Delegating this function to the Fiscal Council should be a criticism against the SAO and this means a warning to all SAIs. We must renew ourselves, we have to strengthen our role and we have to respond to all the new challenges.

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Thank you very much for your kind attention.