

Country paper

State Audit Office of Hungary

Enhancing stakeholder confidence

The State Audit Office of Hungary (SAO), enjoying the confidence of citizens and having professional prestige, supports the National Assembly with its audits and advice.

With its recommendations, it facilitates the regular, economical, efficient and effective utilisation and use of public funds and public property.

According to the introduction of ISSAI 20¹, „a major challenge facing all SAIs is to promote a better understanding of their different roles and tasks in society among the public and the administration. Consistent with their mandates and governing legal frameworks, information about SAIs should therefore be readily accessible and pertinent. Their work processes, activities and products should be transparent. They should also communicate openly with the media and other interested parties and be visible in the public arena.”

The basis of the stakeholder's confidence is the organizational integrity, accountability of management, transparency of operation and the right communication of our results.

1. Integrity

According to the COSO 1992², integrity is defined as follows:

The quality or state of being of sound moral principle; uprightness, honesty and sincerity; the desire to do the right thing, to profess and live up to a set of values and expectations.

The 4th principle of the ISSAI 20 stipulates that SAIs apply high standards of integrity and ethics for staff of all levels.

¹ International Standards of Supreme Audit Institutions, Principles of transparency and accountability

² Committee of Sponsoring Organizations of the Treadway Commission, Internal Control – Integrated Framework

The standard specifies that SAIs must have public ethical rules that are aligned with ISSAI 30.

The standard enforces the supreme audit institution that seeks to eliminate the incompatibility and corruption and ensures transparency and legitimacy of the operation.

The second book of our Audit Manual contains ethical rules for auditors. The Code of Ethics is published on the website of SAO as well. The rules of incompatibility are part of The Act on the State Audit Office of Hungary³ and also part of the Organizational and Operational Regulations. First of all, we specify general rules, then we lay down the rules for audits.

Our Code of Ethics involves ten main elements for all staff. These rules – that are important to our operation – are characterised by professional stability, integrity and unquestionability.

2. Accountability

According to the ISSAI 20, independence, accountability and transparency of SAIs are essential prerequisites in a democracy based on the rule of law and enable SAIs to lead by example and enhance their credibility.

The supreme audit institution specifies its legal framework to ensure accountability and transparency. This principle means that there is a need for acts which facilitate it for the supreme audit institution to be responsible and accountable. The act should cover audit authority, the relevant terms of leaders' appointment and dismissal, the supreme audit institution's operational and management requirements, publicity of reports, supervision of the supreme audit institution's activities, as well as the balance between confidential information and the publicity of information. These requirements are met by the new Act on SAO.

One of the most important principles in context of accountability is the first principle of the ISSAI 20. It stipulates that SAIs perform their duties under a legal framework that provides for accountability and transparency.

³ Act LXVI of 2011 on the SAO

The Act on State Audit Office of Hungary ensures transparency and accountability by means of the SAO's work. On one hand, it concerns the controls of management: "The financial management of the State Audit Office of Hungary shall be audited by an independent chartered accountant selected and appointed by the Speaker of the National Assembly in a public procurement procedure." (Act on SAO, 2nd article)

On the other hand, it concerns the audit authority: „In the annual report prepared for the National Assembly, the President of the State Audit Office of Hungary shall provide information on the audit activity, operation and financial management of the organisation in the preceding year, as well as on the measures taken on the basis of audit findings.” (Act on SAO, 4th article)

The professional regulatory system of SAO consists of sequential elements. These are the strategy, the Audit Manual, the methodological guidelines, methodologies, guides. The rules of audits – except for the guides – are published on our website, meeting the requirements of the transparency and accountability. Furthermore, the Act on SAO allows the auditee to get acquainted with the draft report and make comments on it.

SAO guarantees that principles of accountability and transparency are not compromised when outsourcing its activities. Our audit manual has laid down that „Persons contributing to the audits and other SAO activities on a contractual basis must fulfil their duties and exercise their rights in compliance with this Code of Ethics unless otherwise dictated by legal provisions.”

For the efficient and effective audits, when it is needed for special tasks, we involve external consultants. The Act on SAO stipulates, that "The rules on conflict of interest applying to auditors and laid down in this Article shall also be applied to experts invited by the State Audit Office of Hungary to participate in the audit, and to other participants engaged under agency contracts." (Act on SAO, 18th article)

According to the standard, SAIs manage their operations economically, efficiently, effectively and in accordance with laws and regulations and reports publicly on these matters. We publish this information in line with the requirements.

Under the provisions of the Act on SAO, the SAO prepares annual reports about its activities to the National Assembly, which are also published on the website of SAO.

3. **Tone at the Top**

The “tone at the top” plays critical role in establishing and maintaining ethical and accountable work environments. While the tone at the top is a vital consideration in the development of a sound corporate governance policy, it has been recognized as equally important for accounting firms and other entities.

Tone at the top refers to the ethical atmosphere that is created in the workplace by the organization's leadership. The management's tone has a trickle-down effect on employees. If the tone set by managers upholds ethics and integrity, employees will be more inclined to uphold those same values. However, if upper management appears unconcerned with ethics and focuses solely on the bottom line, employees will be more prone to commit fraud because they feel that ethical conduct is not a focus or priority within the organization. Employees pay close attention to the behaviour and actions of their bosses, and they follow their lead. In short, employees will do what they witness their bosses doing.

Because of the importance of management, we determined principles and rules about leader’s behaviour and communication. We defined in a separated chapter of the Code of Ethics twelve additional requirements for managers.

The requirements can be divided into three categories:

- Vertical
- Horizontal
- External

The vertical aspect of „tone at the top” means communication with the employee, supporting them, their work, their carrier and leading by example.

The horizontal aspect of „tone at the top” refers to the right and efficient cooperation between the managers.

The external aspect of „tone at the top” expresses norms of behaviour for the management, what they should show to the public.