



MINISTRY  
FOR NATIONAL ECONOMY

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# PUBLIC INTERNAL CONTROL (PIC) SYSTEM OF HUNGARY

**Ms. Edit NÉMETH**

CENTRAL HARMONISATION UNIT FOR PUBLIC  
INTERNAL CONTROL, HUNGARY

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# EVOLUTION OF PIC SYSTEM

## **STARTING POINT (Policy Paper):**

- Internal auditors more like financial inspectors
- Internal audit activity based on government decree, but there was some missing elements (risk based planning, international standards, sanctions instead of recommendations – punishing function instead of corrective and preventive support of management, internal audit manual, harmonized audit methodology, guidelines, training for internal auditors etc.)

# A SHORT OVERVIEW ON THE DEVELOPMENT OF THE HUNGARIAN PIC SYSTEM

The roots of the Hungarian regulation of the public control system go back to *1989* – this was the date of establishment of the State Audit Office (SAO) – the Hungarian Supreme Audit Institution

*1992* – the Parliament accepted the Act no. XXXVIII of 1992 on public finances (PFA)

*1995* – the Parliament created the Hungarian State Treasury

*2000* – Financial Audit Department within the Ministry of Finance – ancestor of the latter Central Harmonisation Unit

*2003* – the Government accepted the Hungarian Public Internal Financial Control (PIFC) Development Strategy (Policy Paper)

*2003* – the establishment of the new Public Internal Financial Control System (PIFC)

MoF adopted the IIA standards for use by the public sector

MoF elaborated the new government decree on internal audit of public organisations

*2004* – first Annual Report on PIC

First version of IA Manual was published

As a result of the continuous improving work the IA Manual was revised twice (2006, 2009)

2009 – PIFC system reviewed – COSO model integrated – the 5 well known components:

Control environment, risk management, control activities, information and communication, monitoring

National IA and IC Standards issued by MoF

*Nowadays*

CHU within the Ministry for National Economy (MNE), with 15 headcount

*External audit – SAO*

*Financial Inspection – Government Control Office*

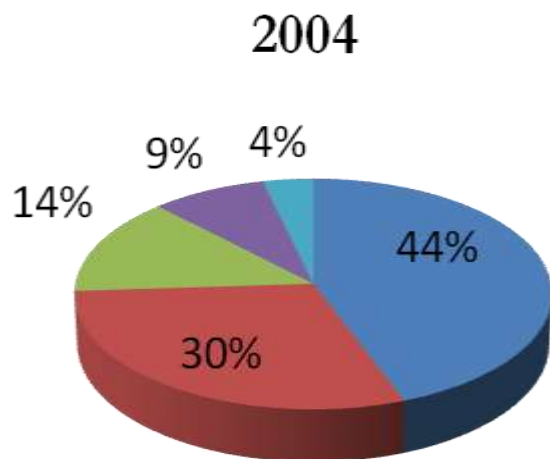
*Financial implementation of the budget, first level control activities and ex-post controls of certain subsidies – the Treasury*

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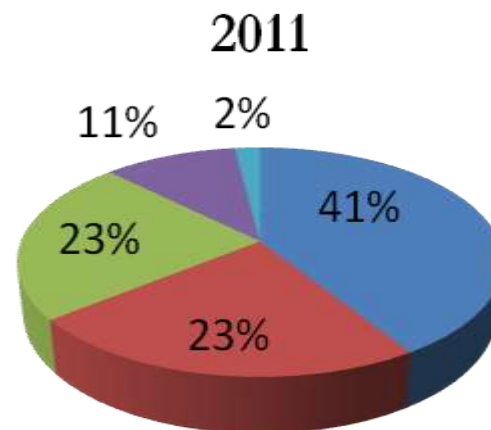
## STATISTICS

- Total number of registered internal auditors: 2367
- In central budget administration: 580 (631 status)
- In local governments: 1787 (number of local governments: 3200)
- Number of audits performed in central budget: 3262 (av. 5,6)
- The av. percentage of audit activity: 77 %
- The av. percentage of consultancy activity: 5%
- The av. percentage of training activity: 5 %

## TYPE OF AUDITS



- Regularity audit
- Financial audit
- System audit
- Performance audit
- IT audit



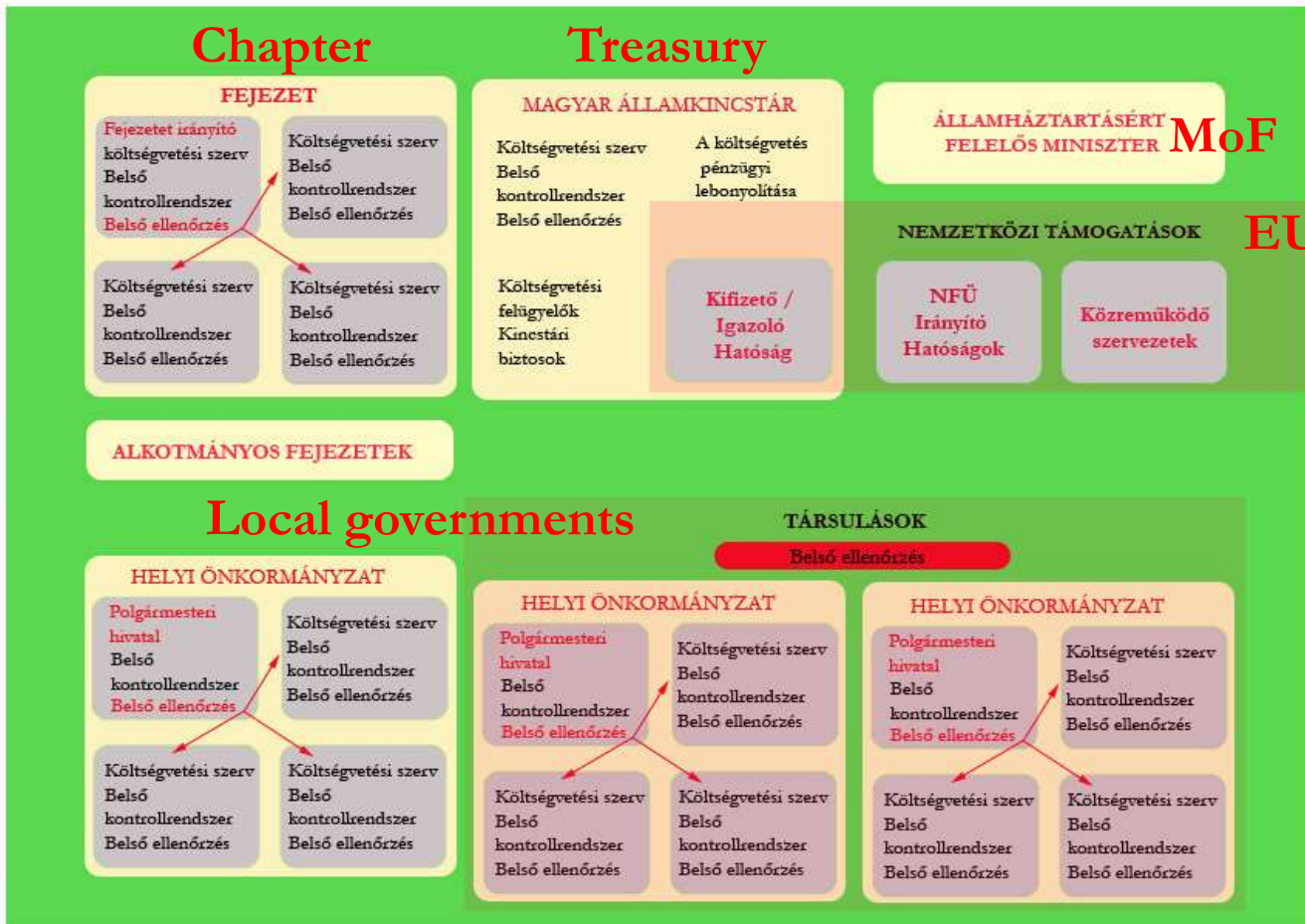
ÁLLAMI SZÁMVEVŐSZÉK

State Audit Office

Government Control Office  
 Government Offices

Kormányzati Ellenőrzési Hivatal

Kormányhivatalok (törvényességi felügyelet)



EU Funds

EUTAF  
Ellenőrzési  
Hatóság

Chartered  
 Auditors

Könyvvizsgáló



## STURCTURE OF CENTRAL BUDGET

- The central budget contains chapters like Ministries and other (e.g. State Audit Office, National Development Agency)
- Every chapter (ministry or arbiter organisation) has subordinated public budgetary organisations (PBO) and budget estimates for a special intention (e.g. PIFC MTC)
- Local government are very similar – Local governments has also subordinated PBOs (e.g. school, hospital)
- Every level of PBOs applies the same regulation concerning PIC
- Reporting lines are down to up: subordinated PBOs – arbiter PBOs – MoF – Government (except local governments)

## LEGAL BASIS



Public Finance Act

Government Decree +  
Minister Decree

National IC and IA Standards  
Guidelines

## PRIMARY & SECONDARY LEGISLATION

- Policy Paper on the development of the PIFC system in Hungary
- Public Finance Act
- Gov. Decree on internal control and internal audit of public budgetary organisations
- Minister's Decree on training of internal auditors, head of PBOs and financial managers

## TERTIARY LEGISLATION METHODOLOGICAL GUIDELINES, MANUALS

- IIA standards and Practice Advisories in Hungarian
- National IC and IA Standards
- Code of Ethics of Internal Auditors
- Template IA manual for the PBOs
- IC manuals (Internal Control Manual, Guideline on Monitoring)
- Manuals on the EU Funds
- System audit methodology
- Performance audit methodology
- Guideline on planning and reporting on internal audit

# CENTRAL HARMONISATION AND COORDINATION ROLE OF THE MINISTRY FOR NATIONAL ECONOMY

## CENTRAL HARMONISATION AND COORDINATION ON THE BASIS OF PFA

MNE is responsible for the regulation, development, co-ordination and harmonisation of the PIC. Within this framework CHU:

- Makes recommendations for drafting and adopting relevant legislation.
- Elaborates, issues, regularly reviews and follows up the implementation of control and audit methodologies and manuals.
- Assesses the quality of the internal control & audit performed
- Establishes the framework of regular & sustainable training system for PIC
- Develops networking activities

## WORK SCHEDULE

- maintenance of legislation
- continuous elaboration of tertiary legislation
- managing PIFC MTC
- supporting IC and IA activity (position papers)
- reporting to the government
- fight against corruption (integrity management) – New Working Group in Hungarian public administration
- Publishing on the website of the Government:  
<http://www.kormany.hu/hu/nemzetgazdasagi-miniszterium/allamhaztartasert-felelos-allamtitkarsag/felelossegi-teruletek/allamhaztartasi-kontrollok-rendszer>

## ANNUAL REPORT ON PIC

Based on following inputs:

- annual audit plans
- annual audit reports
- declaration of assurance
- report on treasury's activity
- report on PIC Committee's activity
  - report on PIFC MTC



## CHU's QUALITY ASSESSMENT ROLE

- Reporting system
- QA on the field of IC
- QA on the field of IA

### Focused on:

- Local governments
- Central public budgetary organisations

### Based on:

Risk assessment

## TRAINING SYSTEM FOR PIC

- conferences, seminars, study visits
- Transition Facility Project
  - Establishment, operation, and professional supervision of the of a PIFC methodological and training centre
- Trainings: on the website of training centre  
<https://abpe.nav.gov.hu/abpe>
- Minister's Decree on training of IAs, FMs, Head of PBOs

## CHU's NETWORKING ROLE

- Channel of communication with the Commission
- Regular and ad-hoc meetings
- Trainings and courses
- Consultative Inter-ministerial Committee for PIC 5 sub-committees (IA, IC, EU funds, government audit, NEW for local governments)
- BEMAFOR (IAHUFOR) – Hungarian Internal Auditor's Forum (newsletter – twice a year; circular letters about new informations or new uploads to our site; draft documents circulation; workshops to share experiences) – more than 600 members

## MAIN PROBLEMS AND CHALLENGES

- lack of internal auditors – improvement of capacity
- some managers still do not have a good understanding of IA – so they have inadequate expectations – we need more „marketing” for IA
- enhancement of independency of internal auditors
- more professional support for internal auditors (more specific guidelines, IT, legal support)
- single internal auditors

THANK YOU FOR YOUR KIND  
ATTENTION!

[pef@ngm.gov.hu](mailto:pef@ngm.gov.hu)

[edit.nemeth@ngm.gov.hu](mailto:edit.nemeth@ngm.gov.hu)