

**Ph. D. DISSERTATION
THESES**

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**Actual Questions of the Development of the Internal Economical Control
System Looking out of the Education Section too**

PhD Dissertation Theses

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I. Antecedents of the work, goals

The development of the financial control system – which is the title and topic of this dissertation – is actual task of our times. Without its reconsideration, immediate creation of the transformation concept, the European Union membership of the country would have been in danger too.

In the professional world it is understood thing that between 2000 and 2002, the EU criticized the Hungarian internal economic control system, mainly for the lack of functional independence, the soon harmonization of control and audit standards, the shortage of auditor staff, and missing audits. On the score of the public internal financial control and the control system, the development was considered slow, and the application of international standards was objected.

By the beginning of 2003, it approved obvious that the EU-conformed transformation of the public internal financial control system is one of the key questions of the Hungarian EU accession. The requirements were drawn up which were the minimal expectations of the EU accession:

- application of international standards,
- assurance of the functional independence of internal auditors,
- employ auditors who have appropriate methodological knowledge and practice,
- coordination and harmonization in the field of the public internal financial control system,
- accountability of the leaders of budgetary institutions,
- transparency of the financial management and control systems and processes
- to increase the qualified auditor staff,
- to develop the system of the reporting obligations.

In June 2003 – following the previously mentioned outer requirements and lengthy internal professional conciliations – the concept was finished, and was

accepted by the responsible committees of European Commission. (The development strategy was accepted by the 2179/2003. (VII. 29.) Government decree.)

On the basis of the accepted strategy, economic, accounting and control reform of the public sector was defined as a long term task. The short term governmental tasks were prescribed as follows:

- The development and the training-retraining of the internal auditor staff are necessary as soon as possible.
- The development of the public internal financial control system is necessary, making it able to assure the coordination with the elements of the financial management and control (FEUVE).
- To strengthen the chapter responsibility with special regard to the development and operation of the financial management and control system.
- Both the ministers managing the chapters to the Ministry of Finance (PM), both the Ministry of Finance to the Government should continuously report about the state and the operation of the financial management and control system.

The basic goal of the research work done in the frame of this dissertation was to identify successfully the emerging problems in practice as much as possible and elaborate possible recommendations for the solution. Another intention was to demonstrate the operation and logical closeness of the internal control system by processing and revealing of the accumulated experiments and existing documents, and to make the possibility of drawing up further proposals based on these knowledge.

The dissertation also aims to show why don't succeed to accomplish good ideas quickly, why and for what reasons is stagnation at the same time, besides and against the results seen on the surface. Applying comparative analysis, it wishes to outline how the different interests and initiations of the internal auditing figures on different levels are affecting to the actual realisation possibilities.

II. Content, methodology, reasoning of the research

The materials, documents necessary for accomplishing the goals were placed at the author's disposal by the several legal regulations came into operation from year 2004, and by the experiments of the connected professional conciliations and the continuous inter-departmental committee sessions. Judging the questions of development is based on the special publications and work materials of the limited international, and the wider ranging professional circles.

The analysis and evaluation of the changes in the control systems in Hungary, and the review of the circumstances and conditions of its applications brought many important professional questions and information to light till now.

In connection with the topic, the dissertation evaluates the preparation, state and possibilities of the execution, and financing possibilities of the changes prescribed in different laws and government decrees.

It was important to judge whether the developments in the different levels of the subsystems of the public financial control were proportionate, as well as the staff increase was realised from developments and the changes were solved by qualitative changes.

The professional surveys, analyses and evaluations of the Public Internal Financial Control (ÁPBE) inter-departmental committee provided wide range and substantial materials. The reports and plans of portfolios and their institutions are harmonized on this forum.

The audit information of the Ministry of Education and Culture (OKM) and its legal predecessors were utilized by processing the question forms prepared for planning and reporting.

The dissertation essentially applied the methods of document-processing, content analysis, theme and comparative study, statistical processing and press review. The legal regulations and their changes were also surveyed. The publications, lectures and educational materials were processed as well in respect of both Hungary and the EU.

III. Results

Outlining the transformation and the new type regulations of the public internal financial control system, the dissertation indicates that several elements of the requirements of EU concerning the financial control were present in the former financial control system, too. It will also be demonstrated that most of the institutions that take part in the execution of the budget are suitably regulated, and the financial solutions reflect the international tendencies as well.

Furthermore, it will be shown that the public internal financial control system – in its present status – completely does not comply with the requirements of the rigorous and transparent public expenditures and with the expectations claimed towards the economical and effective state. It follows from the foregoing, that the institutional system and the legal regulations of the public internal financial control system, furthermore the practice of the audit shows digression from the EU requirements, this way the harmonisation is not full.

The insufficiencies that were recognized by the professional authorities and bodies – and are shown in the dissertation too – claim further measures in the following main areas:

- Adequate establishment of the commitments, full demand of reporting duties, and increasing of the accountability in the field of financial management and control.
- Basic requirement is strengthening the functional independence; the increase of system and performance audits is the main task in the field of internal audit.
- Strengthening the central harmonization of the control should be made stronger.
- Lack of capacity that is observed in every level is a general insufficiency.

The results and the recognized faults, insufficiencies also indicate the directions of the development. The improvement and the direction of the development of the financial management and control system mainly depend on the general modernisation directions of the budget and state household. The legal

conditions of the development of the internal control are assured on the first level. Besides the above mentioned capacity-development, the methodological regulations of the tasks of the supervisory, governmental and internal control are not in time.

The dissertation lays special emphasis on the demonstration of audit tasks and different organisational changes of Ministry of Education and Culture and its legal predecessors, considering the different outer legal and organisational changes too. (Not mentioning that the predecessors were separated and drawn together again in the period looked over.)

The dissertation deals stressed both generally and related to the Ministry of Education and Culture and its legal predecessors, with the legal, realisation and implementation conditions of the new type reliability audits alike. Accepting the Union's expectation that the reliability of the state budget is justified in total, only if all the chapters and all the supervised institutions are reliable, at the same time it seems that the arrangement conditions of the complete audit are still very primitive.

A significant yield of the development of the controlling system is the development of the financial management and control that new mandatory elements were introduced from year 2004 which worked earlier too in its main elements. All institutions financed by the state budget have to prepare audit trail with the responsibility of the management, which shows the activities concerning the different processes, the legal basis of the activities, the person responsible for, and the related documents alike. Besides the previously mentioned ones, the leader of the budgetary institution is obliged to perform risk analysis and operate risk management system with respect to risk factors. At last, in connection with the financial management and control, and in connection with the modification of the state household act (act about the operation order of the public budget), the manager of the budgetary institution is also obliged to work out the rules of procedure managing irregularities, and it should be prescribed in the organizational statues (SZMSZ) as well.

In connection with the development of the controlling system, the dissertation demonstrates – at the heart of the matter – the main goals of the

government's anti-corruption measures, and the measures achieved since then. In particular it demonstrates the incompatibility rules, their changes, the new types of decision mechanisms, data handling and public procurement, and the changing mission and tasks of the Criminal Code, the prosecution service and courts of justice. It outlines the new type conception of lobby act and party financing, and – connected with this and generally as well – the importance of management of the publicity.

IV. New results

The necessary governmental, strategic and executive decisions for the sake of the further development of the public internal financial control has been originated. In the period passed since that time – with regard to the connected further additional measures too – it became evident that both the strategy, both its certain elements and the schedule of execution are in need of completion and modification. The dissertation aims prominently at demonstrating the standpoints and debates related to the evaluation of the status. The debates and the related professional reconciliations helped the reconsideration of several questions, also the regulation by chance, but did not come to a rest in many questions. Although the government rescheduled the accomplishment of the total performance audits mentioned above from 2007 to 2010, but the personnel and accomplishing conditions can not be seen at this moment.

The SIGMA report on the Hungarian public internal financial control system gave an exceptional outer and independent analysis of the challenges related to the topic and focusing to the problematical fields for EU.

The present status evaluation of the development of the control system is basically influenced by the actual transformation of the central administration, which was very actual, but did not give enough attention to all the elements of the development of the public internal financial control accepted by the government and EU. The dissertation – while outlining the elements and points of view of the state of the central administration – concretely defines those crucial points that are temporarily damaged.

The dissertation demonstrates prominently the dynamics of the organisational, staff and operational changes of controlling at the Ministry of

Education and Culture (Ministry of Education) too. In different parts of the dissertation – adjusted to the timely interpretation of the general status evaluation – a comprehensive evaluation of the period between 1999 and 2008 occurs. At the Ministry of Education and Culture (and at its legal predecessors) the personnel situation was considerably effected by the organisational changes mentioned before, and the change is also significant at the supervised institutions as well. The processed factual data show evidently that the very modern reliability audit already binds three-quarters of the audit capacity of the portfolio (on contrary: hardly one-quarter in 2004), but – because of the missed developments – there is not enough capacity left for the other necessary tasks and for the out of order demands of the management.

The analyses and evaluations concerning the reliability audits performed at the Ministry of Education and Culture draw the attention to the faults originated from the improperly elaborated new methodology. Its correction is necessary, since progressive proposals beyond dispute can only be drafted this way.

From the points of view of its goals, the dissertation concentrates on the actual status evaluation and development of the public internal financial control system (and on the chapter and institutional audits within), and gives an outlook to the task evaluation of the Government Audit Office (KEHI) and legal predecessors and the (ÁSZ) that has exclusive external audit tasks as well. Shortly introducing the state and activity of the State Audit Office – in line with many other experts – outlines the possible points of view of the further improvement.

V. Conclusions and recommendations

The state budget audit achieved significant progresses in the past approximately hundred years. (The dissertation can only fragmentally present certain stressed periods of this transformation and development.) The improvement is necessary in the organisational, legal and methodological field alike. In the organisational field, the significant modification of the act about the State Audit Office is necessary because of the appropriate indication of the boundaries between the internal and external audit. The transformation and change of the tasks of the Government Audit Office has been accomplished. The three pilasters of the budget financial control system (FEUVE, internal audit, central

harmonizing unit) is in need of survey, completion and further development, with particular respect to the negative effects of the development in the central administration mentioned above. From methodological point of view, widening the scale of the guides, handbooks and other study aids that started well, the education, continuation courses and the satisfactory arrangement of the state of the reliability audits could be the way to be followed.

The largest and the most important auditor agency, the Government Audit Office continuously perceives and indicates the necessity of changes. In the document “Thesis’s of regulating public budgets“ issued in April 2007, tries to define the frame and conditions of the better operation of the public finance system in concrete proposals. Its emphasized responsibility is to enforce the principle of efficiency, effectiveness and economy. The document makes obvious that controllability is necessary not only for financial, but professional reasons too. It is the task of different professional audits to enforce the controls derived from the specialities of professional duties. The document takes a stand on that assuring the compliance of the internal control mechanisms and operational risk assessment is the task of the independent internal audit. The principal aims and conception of the “Thesis’s” can be summarized as public funds should not be used anywhere without appropriate control.

In the field of the public internal financial control – with attention to the defined and accepted strategic goals – the most important and urgent tasks are summarized below:

- There is no need to alter the strategy accepted by the EU, but its correction and the assignment of the necessary resources and means are urgent.
- The total reconsideration of both the internal and external audit tasks in Hungary and the assigned institutions should be realized in a comprehensive act, and this could complete the public budgetary act under way as well.
- The assignment of the resources to the previously accepted conception and the legislative changes planned in connection with the public budget could make the applicable methods of the solution and the

main official responsibilities of certain audit tasks – that are still disputed – unambiguous.

- It is necessary to correct the negative effects of the important and temporary changes of the 2118/2006. (VI. 30.) Government decree, and initiate the necessary personal and organisational changes.

Related to the formulated strategic goals:

- The planned wide-range legal regulations have already been done; their execution and the system of conditions must be unified.
- Contrary to the goals, the situation of auditor capacity did not improve, but considerable transformations and partly favourable changes occurred in the field of auditor education and continuing education.
- Although the state of the functional independency of auditors got better when the new government act came into operation, but as a result of central governmental measures, stagnation and backtracks happened, which should be rectified.
- The new accounting, reporting system is developed at the different levels of audit, but its content and formal requirements should be improved, simplified, first of all with the aim of their effective and useful processing.
- To perform reliability audits is very important, but the main responsibility of the fulfilment, the division of labour and the conditions of the work should be reconsidered. If we fail to make a decision in this question, then the total introduction of reliability audits must be delayed, or realized adjusting it to the value limit.
- The organisation managing coordinative and harmonizing tasks was formed in the Ministry of Finance, but a provisional decrease can be observed in the staff and in the conditions – as well as in connection to the development of the administration – which is not in accordance with the steps expected by the EU, this way its strengthening have to be thought over and reasonable.

VI. Publications connected to the thesis

- dr. Sebes József – Márkus Anikó: Possibilities and ways of fighting against corruption in the administration. Magyar Közigazgatás 2002. 7-8th issue.
- dr. Sebes József – Márkus Anikó: Endangering order of rank and competence-map. Ellenőrzési figyelő, 2002.
- dr. Sebes József: The internal financial management and control system. Iskolaszolga. 2005. May-June
- dr. Sebes József: About the pre- and post audit management control. In: “Korszerű iskolavezetés” school-book. RAABE Tanácsadó és Kiadó Kft, 2005.
- dr. Sebes József: Is reliability audit a by-product of the development of financial control system? Ellenőrzési Figyelő, 2005. September
- dr. Sebes József: Honesty is a basic norm in the public sphere. Ellenőrzési figyelő, 2006. 2nd issue.
- dr. Sebes József: Development and reform in the central administration and the state of the internal financial control (evaluation in key-words). Ellenőrzési figyelő, 2001. 1st issue.

Oral presentations related to the topic:

- The state of the financial audit and the financial accounting. Conference of Leading Auditors. Balatonöszöd, June 2-3. 2005.
- Actual questions and tasks of internal audit. Conference of leaders. Sárospatak, November 9-10. 2006.
- Connection between the development of the central administration and the public internal financial control. Audit Conference. Budapest, November 16. 2006.
- Actual questions of the development of the public internal financial control. Conference of County Education Leaders. Szeged, November 6. 2007.