Some Taxonomic Elements of the Internal Control of Public Finances and Experiences of Teaching them at the University of Public Service

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Summary
The study focuses on internal control within the area of public finance control, the comprehensive reform of which started in 2010. The aim is to draw attention to the legal background of the internal controls of budgetary organisations and how to improve the efficiency of the use of public funds. The paper addresses in detail the requirements arising from European and Hungarian legal standards, the connection with other control aggregates of public finances and taxonomic relationships. The study outlines the regulation and methodological background of internal audit. An additional unique feature of the study is that it presents the educational system of fiscal and internal audit training for government officials at the National University of Public Service and the scientific summary of experiences resulting from the questionnaire survey of graduates.

Keywords: internal audit controls, public finances, methodological development, training of government officials

JEL codes: A20, H12, H61, M41, M48

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Although public finances and the accounting for them are old and eternal topics of economics and public administration science, and although they are relatively well defined by legal regulations, their exact validity has been often impaired or formed the focus of sharp critical attacks from ancient societies to the present day. The public finance systems are ultimately designed to improve the well-being of the community, which is perceived differently by citizens of the state and by corporations (i.e. the primary income holders). In the words of *Béla Földes* (1900): '*cash flow and money... are becoming increasingly important and have a decisive influence on the whole life of the state*''.[1] In democratic societies, the management of public funds and public assets is authorised by society or the electorate, for a limited period of time, but almost for the entire economic scope of the state. It is therefore important to ensure the transparency of public assets, and the principle of publicity and accountability, which the law primarily entrusts to the supreme representative body, the national parliaments, and, in addition, through the governments, to organise the institutions of public finance management and establish the methodology and practical standards for their control. Those entrusted to perform audits also monitor compliance with the law and, increasingly today, the effectiveness of the use of public funds, which is expected of those who manage the budget. Pursuant to Article 37(1) of the Fundamental Law, the Government shall implement the central budget in a lawful and expedient manner, with effective management of public funds and the guarantee of transparency. The State Audit Office of Hungary is the key auditor for the implementation of these requirements.

One of the most important requirements for the control of public finances is to be as efficient and useful as possible.[2] This implies that the most effective control activity, as in corporate operations, would be most effective 'locally' at the level of the managers, i.e. the budgetary institutions. This requires the independence and consistent application of the internal control system and the independence of internal control itself. Although there are important differences between public and private management (see Sivák, Vigvári, 2012), the difference between the two sectors stems from different objectives, motivations and mechanisms of operation (ownership, control). But both types of organisation raise the need for control, especially internal control. For private companies, the need for financial controlling is particularly relevant, as it is linked to the financial management functions, and its concept is based on a financial management system that transmits the financial requirements of strategic objectives, through the organisation of the company, to the employees who implement them (Kondorosiné, Zsidó, 2017). However, control in public sector entities is also subject to a number of other aspects (e.g. political background, political motivation, social expectations), and consequently the strength and objectivity of internal control may differ from that in the market sector. Moreover, the entire control in the government sector, including the aspects of internal control, cannot be limited to rationality and efficiency, as the full realisation of the public good must be pursued, and efficiency is not necessarily a primary consideration. At the same time, however, public finances are managed from public assets, through the generation and use of public funds, and the aim must be to use public resources as effectively as possible, while at the same time meeting the needs of the public as widely as possible, which is also reflected in the specific features of control. Ultimately, it is the task of Parliament and the budgetary policy authorised by it to set up (deregulate) public finance controls in the central and local subsystems of public finances, covering the entire structure, which in Hungary follows the so-called triple line of control (lines of defense).

THE THEORETICAL BACKGROUND TO PUBLIC FINANCE CONTROL

By the end of the first decade of the 2000s, New Public Management, which seeks to ensure that public finance management is based solely on rationality, had weakened and is undergoing reassessment. As a result, the public management and the control system that used to allocate and redistribute public funds and operate public utilities, which had previously been based mainly on efficiency criteria, underwent a number of changes. Extensive benchmarking of the impact and effectiveness of activities, the creation of smaller service units and even the outsourcing of economic management and utility services and then placing them in a competitive environment, and even the widespread adoption of management methods of the corporate sector have not had the expected impact. The practice of replacing the DPM (decentralisation, privatisation, management) paradigm[3], particularly in Hungary, has led to increased organisational centralisation in the field of public services, the 'reorganisation' of public services into the public sector, the application of price regulation by public authorities to utility tariffs, and the buy-back of previously privatised utilities into national ownership.

According to István Kukorelli (2020), '*traditional liberal constitutions have banned the state from the economic sphere, regulating at most the sanctity of property and the market economy, as well as some, mainly jurisdictional, elements of the budget*'. This liberal perception of the world, however, seems to be weakening, especially in Hungary, where the legislator has essentially created a new economic constitution for economic governance through the Fundamental Law and other cardinal laws.[4] Kukorelli[5] sees the creation of a separate, complex public finance chapter in the state organisation section as one of the major innovations of the Fundamental Law. *András Bragyova* (1995) and others[6] argue that without regulation of public finance, not only a constitution, but even constitutionalism is hard to imagine. Thus, the combined effect of all these may be the broader assertion of the social public good as a substitute for the profit motive of public service providers, i.e. the outline of a new CNPG (centralisation, nationalisation, public good) paradigm[7] (Lentner, 2018). The new operating principles of public management entail a strengthening of the legal framework and, more pertinently, a renewal of public finance audit. In particular, following the crisis of 2007-2008, we are living in a period, including the impacts of the coronavirus crisis starting in 2020, when, according to *Samuelson and Nordhaus* (1990), market disturbances can only be addressed by state instruments. One striking example of this is the decisive increase in the role and weight of public finance controls, of which the Hungarian legislature is a prime example. *Bordás* (2014) raises the theoretical dilemma of the extent to which the state should allow the spontaneous functioning of the market to prevail. But in the post-2010 reorganised public finance environment, state intervention, whether through regulation or control, or even through direct influence on market actors, is akin to the principles and practices of an active French etatist or post-World War II social market economy, as advocated by *Konrad Adenauer and Ludwig Erhard*. Indeed, it is more saturated by the systemic features of the New Weberian state model than by the neoliberal practices of the Washington Consensus, which was built up from the 1970s and weakened Hungary in the first two decades of the regime change. Consequently, market spontaneity has been fairly moderate over the last decade or so. The stronger control of the management of the state and local governments compared to the past stems from the essence of the active state model, the methodology and legal background of control has also been substantially transformed, and this has also increased the trust factors between auditors and auditees.[8]

THE PUBLIC FINANCE CONTROL SYSTEM AND 'ALIGNMENT' OF THE INTERNAL CONTROL

A milestone in the series of public finance reforms that have been permanent since 2010 is the introduction of accrual accounting in the public sector as of 1 January 2014 (as an EU requirement).[9] According to paragraph (2) of Council Directive 2011/85/EU[10], Member State governments and public finance sub-sectors operate public accounting systems that include bookkeeping, internal audit, financial reporting and auditing. They thus form a coherent system which ensures comparability between Member States as set out in paragraph (3), as a prerequisite for the production of high quality statistical data using complete and reliable public accounting in all public finance sub-sectors. The internal audit shall ensure that the existing rules are applied across all sub-sectors of public finance. Independent audits by public bodies, such as supreme audit institutions, or private audit firms should encourage the observation of international best practices. It follows from paragraph (4) of the referenced Directive that the availability of real and verifiable budgetary data is essential for the proper functioning of the European Union's budgetary surveillance framework. The regular availability of timely and reliable budgetary data is key to adequate and timely surveillance, which in turn allows for prompt action in the event of unexpected budgetary developments. Transparency is essential in ensuring the quality of budgetary data, which requires regular public disclosure of these data.

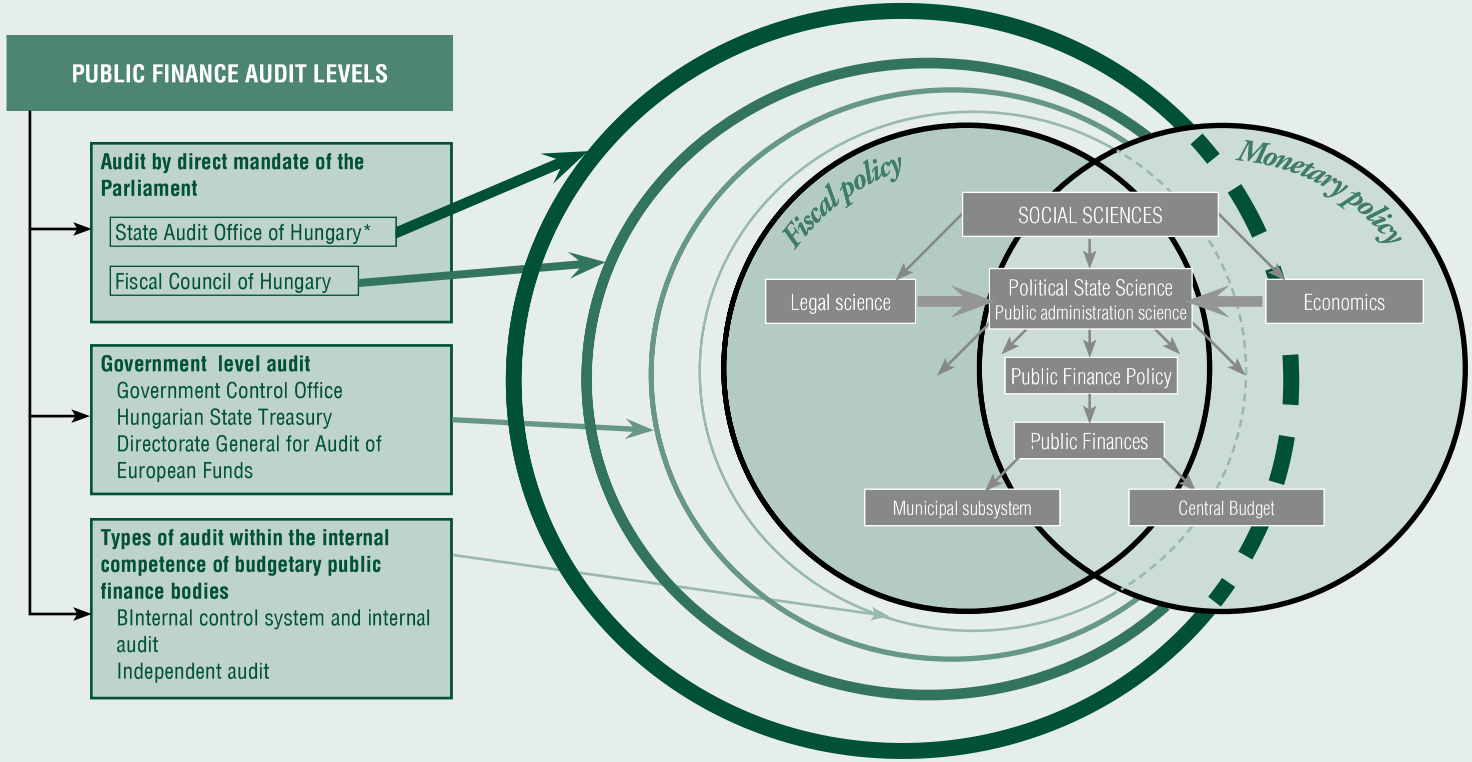
The Hungarian public finance control system, which is being developed in line with the EU's guiding principles, aims, with strict consistency[11], to create guarantees for the balance of public finances and the transparent, efficient and controllable management of public funds, and to fit in with the Public Funds chapter of the Fundamental Law. The Act on Public Finances provides a comprehensive framework for the audit system of public finances. According to the Act, the basic objective of public finance controls is to ensure the regular, orderly, economical, efficient and effective management of public funds and assets.

The public finance control system is based on three pillars ('audit trail') (see *Taxonomy diagram, Figure 1*[12]), namely audit through the Parliament and the audit bodies assigned to it, audit at government level, and the internal control and internal audit of public finances.[13] The three pillars of the public funding-public finance control system together form a whole,[14] therefore it is not possible to discuss internal control, the focus of this paper, in isolation.

According to Article 43 of the Fundamental Law, the State Audit Office of Hungary is the financial and economic audit body of Parliament. Within the scope of its statutory functions, it supervises the implementation of the central budget, the management of public finances, the use of resources from public finances and the management of national assets, which are regulated in detail in (cardinal) Act LXVI on the State Audit Office of Hungary. The State Audit Office of Hungary is thus

Figure 1

TAXONOMY DIAGRAM OF THE HUNGARIAN PUBLIC FUNDING-PUBLIC FINANCE AUDIT



Note: * Regarding only for the MNB's payroll and asset management, as well as budget relations

Source: self-edited, 2022

empowered to audit public finances as a whole within its general competence. Its audits are performed according to the criteria of legality, practicality and effectiveness (Domokos, 2016; Domokos et al., 2016). A new element is the creation of a complex concept of public financial management, including the general audit practice of the State Audit Office of Hungary, which also covers public utility companies (see Domokos et al., 2016/b).

The growing role of public finance rules in European constitutional development is clearly visible. The need to reduce public debt and budget deficits is also a consequence of EU membership. The Hungarian Fundamental Law[15] contains a strong (as a primary objective) golden rule aimed at reducing public debt, and the Constitutional Court also has limited powers to review budgetary and central tax legislation. Hungarian budgetary management and the public finance audit aimed at improving its level of discipline are essentially subordinated to the objectives of reducing the budget deficit and public debt, with their enforcement serving this purpose. The strong EU control mechanisms over Member State budgets also increasingly show the need to ensure that national constitutions take into account European economic governance requirements when making fiscal policy decisions. The Parliament has adopted the Stability Act to implement the provisions of the Fundamental Law. The Fundamental Law and the Stability Act set out a number of requirements for reducing public debt. The Fiscal Council of Hungary is the body that supports the legislative activity of Parliament and examines the soundness of the budget. The Fiscal Council of Hungary has veto power over the draft budget act[16] (see more on the Fiscal Council of Hungary: Kovács, 2016; Kovács, 2019).

Government auditing is an objective, fact-finding, inferential and advisory audit and advisory activity that examines the use of public funds, the management and preservation of national assets and the efficient, economical and effective performance of public tasks. The Government Control Office (Hungarian abbreviation: 'KEHI') performs audit activities in accordance with the annual audit plan approved by the Government.[17] The audit body for European funds is the Directorate General for Audit of European Funds (DGAEF). Its authority extends to the audits related to budget support provided primarily from European Union funds, as defined in Government Decree 210/2010 (30 June), as well as to procurements conducted in the context of budget support and the examination of the performance of contracts concluded in this context.

In addition to its numerous other budget-related tasks, the Hungarian State Treasury also exercises auditing powers over budget contributions and support (such as normative contributions from the central budget to the municipal subsystem). The Hungarian State Treasury audits the use and accounting of funds budgeted and disbursed. A significant difference compared to the State Audit Office of Hungary is that the Hungarian State Treasury can issue binding decisions and recover public funds that have not been used for the intended purpose.

A particularly important area of public finance audit is the internal control system of the relevant budgetary agency, the independence of which is somewhat more nuanced, as the internal audit is essentially an integral part of the managerial audit.[18] In this case, the budgetary agency itself sets up a mechanism to verify that activities are performed in a regular, economical, efficient and effective manner, that obligations are met, that losses of resources are avoided and that the proper functioning of the budget is ensured. The internal control system is therefore ultimately a system of processes designed to manage risks. The internal control system of Hungarian public finances is based on international and national standards, laws, and government and line ministers' decrees, which are heavily influenced by the methodology development background of the State Audit Office of Hungary (see: Analysis of the internal audit..., 2019). Both the State Audit Office of Hungary and other external audit authorities rely heavily on the internal audit reports of the budgetary authorities. The internal audit coordinates cooperation with the external audit of the budgetary agency, depending on the decision of the head of the budgetary agency. By 31 January of the year following the audit, the SAO requests reports from the audited bodies on the implementation and utilisation of the recommendations made by the SAO. Moreover, according to the provisions of Part III of the SAO Act (Obligations of the audited organisation to take action), the audited organisation prepares an action plan, the implementation of which may be verified by the SAO in the framework of a follow-up audit, and in the case of a notification letter, the audited organisation shall be obliged to take action, the assessment of which shall be governed by the relevant provisions of the SAO Act, in fact, pursuant to Section 31 of the said Act, the State Audit Office of Hungary may take measures to safeguard assets. The minister responsible for public finances is responsible for the development, regulation, coordination and harmonisation of the internal control system in public finances.

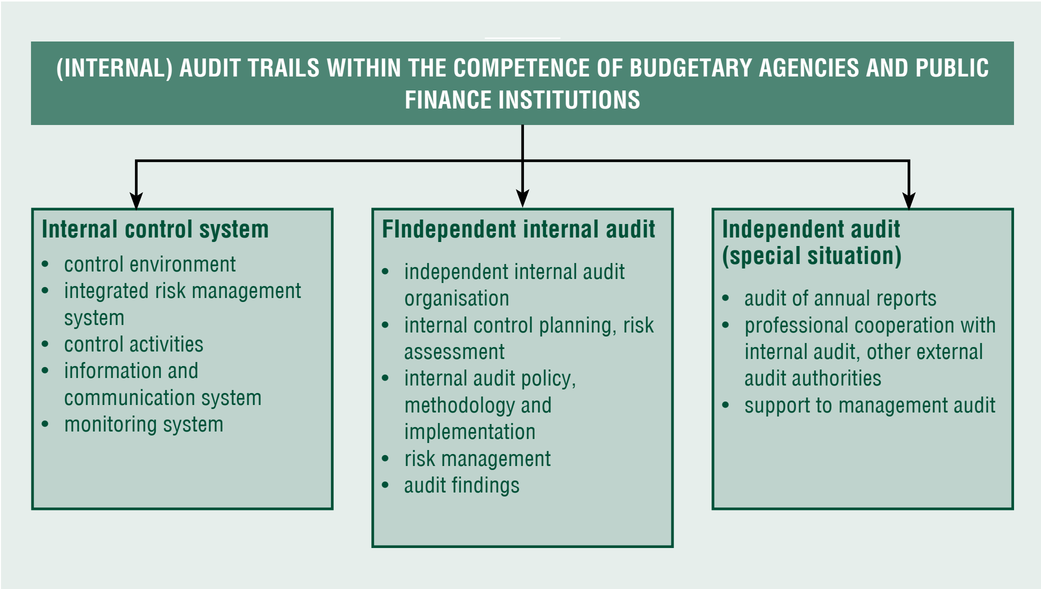
INTERNAL CONTROL REGULATION AND 'BUILDING BLOCKS'

The internal control and audit level, which can be considered as the third pillar of the public finance control system, is (also) subordinate to the objective of the Public Finance Act to balance public finances, and to achieve transparent, efficient and controllable management of public funds, in line with Government Decree 370/2011 (31 December) on the Internal Control System and Internal Audit of Budgetary Agencies. The internal control system of a given budgetary agency is therefore an important area of public finance control, whose independence can be interpreted in a more nuanced way, making it an integral part of management control. Indeed, the budgetary agency itself sets up a mechanism to ensure that activities are carried out in a regular, economical, efficient and effective manner. Accountability is ensured and resources are protected against damage and misuse. The internal control system is therefore ultimately a system of processes designed to manage risks. In practice, this is essentially supported by the special audit function of the economic entities, which operates on behalf of the budgetary agency, *see Figure 2.*

The internal control system of Hungarian public finances is based on international and national standards, laws, and government and ministerial decrees. The international standards are based on the premise that internal control activities are performed in different legal and cultural environments by organisations with different purposes, sizes and complexities with their own staff or external persons. The differences in the context of the given country may have an impact on internal audit practice, and it is therefore essential that the role of internal auditors and the internal audit function is consistent with the International Standards for the Professional Practice of Internal Auditing. The purpose of these standards is to provide guidance on compliance with the mandatory elements of the framework in different countries. They provide a framework for the implementation of a wide range of value-adding internal audit

Figure 2

THE MODEL OF CONTROL WITHIN THE COMPETENCE OF ECONOMIC ENTITIES AND PUBLIC FINANCE INSTITUTIONS UNDER THE BUDGETARY SYSTEM



Source: self-edited, 2022

services. They provide a basis for measuring internal audit performance and, in addition, serve to improve organisational processes and operations. The International Standards provide recommendations for the conduct of internal audit activities, and are divided into core and implementation standards.[19]

The Hungarian Standards are issued by the Minister responsible for public finance, 'mapping' the international standards but taking into account national specificities, in order to facilitate the process of harmonisation of internal audit practices. The Ministry of Finance has thus made the international standards the benchmark for the official expectations of Hungarian budgetary agencies in the area of public internal audit. Section 70 of Act CXCV of 2011 on Public Finances lays down the standards for domestic internal audits, and Section (2) *p)* of Government Decree 370/2011 (31 December) on the Internal Control System and Internal Audit of Budgetary Agencies (hereinafter: 'Bkr.') defines the Hungarian internal public finance standards to be published for the implementation of internal audit activities based on a uniform set principles, which serve as a benchmark for the establishment of internal regulations of budgetary organisations and the implementation of activities according to the appropriate methodology.[20] In other words, pursuant to Section 17(1) of the Bkr., the internal auditor of a budgetary agency shall perform their work in accordance with the international internal audit standards and the guidelines published by the Minister responsible for public finance, the precise method of application of which shall always be decided by the internal auditors in the light of the specific situation and in accordance with their professional judgement. For example, the most important documents for auditing a budgetary agency are the annual audit plan and the annual audit report, for the preparation of which the responsible ministry also maintains detailed guidelines.[21] Internal auditors also rely in their work on the Code of Conduct[22] issued by the Ministry. The purpose of the Code is to make known to all concerned the ethical standards that are of paramount importance in the performance of internal audit work. It declares the commitment of the auditors of the budgetary agency to ethical objectives and helps to identify and address professional ethics problems and to develop a common ethical culture.

The Ministry of Finance prepares an annual report on the state and functioning of the public internal control system (PICS), which mainly includes an analysis and evaluation of the annual activities of the chapters and the agencies managed under the chapters, thus providing information to professional organisations. The legal background for the report is provided by Section 51(2) of the Bkr., which is discussed by the relevant thematic groups[23] of the Professional Consultation Board, and is used as a basis for proposals for legislative amendments[24] and new legislation.[25]

The head of the budgetary agency is responsible for the establishment, operation and development of the internal control system of the organisation, taking into account the methodological guidelines[26] published by the Minister responsible for public finance. Government Decree No 370/2011 (31 December) on the Internal Control System and Internal Audit of Budgetary Agencies defines the concept of internal audit and the internal control system. The purpose of the internal control system is to promote regular and efficient financial management, and to facilitate, or if necessary, to enforce it by means of internal audit instruments. The head of the budgetary agency is required to establish and operate an appropriate control environment, i.e. a clear organisational structure, clear lines of responsibility and authority, and transparent and properly regulated operations.

A further task is the establishment of an integrated risk management system, i.e. a system of process-based risk management, including statutory risk management obligations, applicable to all activities of the organisation, using a common methodology and procedures. It ensures that the organisation's risks are fully identified, assessed against defined criteria, and that an action plan for managing the risks is prepared and monitored, taking into account the organisation's objectives and values.

The head of the budgetary agency is responsible for the design of specific control activities, such as in-process, ex-ante, ex-post and management controls [FEUVE], which are linked to financial and management processes, including authorisation and approval procedures. The manager is responsible for the establishment of an information and communication system, i.e. an efficient, accurate and reliable reporting system, to ensure that the necessary information is available in the right place, at the right time and in the right detail. And last but not least, it is essential to have a monitoring system in place to monitor the organisation's activities and the achievement of its objectives on an ongoing or ad hoc basis. A good control system is characterised by a clear organisational structure, clear lines of responsibility, well-defined ethical standards and transparent management of assets and human resources.

Internal audit is by definition an independent, objective assurance process, as well as an advisory activity, designed to improve the functioning and effectiveness of the audited organisation. Internal audit takes a systemic approach and systematically assesses and improves the effectiveness of organisational management, internal control and audit procedures. Its independence is ensured by the fact that the person or body performing the internal audit is directly subordinate to the head of the budgetary agency and reports directly to them. The internal auditor makes findings and recommendations by examining compliance with the law and internal rules, planning, management and the performance of public tasks. They may not be involved in any other activities. In the course of the assurance activity, the internal auditor makes an objective assessment of the facts and, on that basis, forms an independent opinion or draws conclusions about an organisation, operation, function, process, system or other subject of the audit. The nature of advisory service is that of a consultancy activity, usually provided at the specific request of management by the internal auditor.

In local governments, the clerk is required to operate an internal control system, as defined by law, to ensure the proper, economical, efficient and effective use of the resources available to the local government. A special feature is that the municipal internal control system includes a finance committee, which must be set up in municipalities with a population of more than 2,000 inhabitants, to check the coordination of budgetary processes and the justification and economic soundness of commitments giving rise to debt, as well as compliance with the cash management rules and the enforcement of the documentary order and discipline.

A special case is the audit of the auditors chosen by the municipalities themselves. The obligation of local governments to audit the accounts for a limited number of local governments was provided for in Section 92/A of Act LXV of 1990 on Local Governments (Ötv.) (as amended in 1995). According to the law, the municipalities of the capital city, the capital districts, the counties, the municipalities with county rights and all other municipalities whose total expenditure in the previous year initially exceeded HUF 100 million and from 2003 HUF 300 million, and which also had a credit balance or planned to take out loans, were required to commission an auditor to audit their simplified annual accounts. For the latter, the auditing obligation covered the period from the year in which the loan was taken out until the last year of repayment. This means that before the entry into force of Act I of 2013, which raised the threshold to HUF 300 million, the obligation covered nearly 1,000 local governments. For larger municipalities, providing opinion on the draft decrees on budget and final accounts was also a mandatory audit task.

The audit requirement was not taken over by Act CLXXXIX of 2011 on Local Governments in Hungary (Mötv.), which replaced the Ötv. The Mötv. did not contain such a provision at the time of its adoption, although several proposals (including a proposal by the Hungarian Chamber of Auditors) called for it. The models developed at the time were in line with the provisions of the Council of the European Union's 2011/85/EU Directive on requirements for budgetary framework of the Member States, which states that '… *public accounting systems shall be subject to internal control and independent audits*'.

The termination (repeal) of the obligation was confirmed by Section 156 (2) of the Mötv. and Section 9 of Act CCIX of 2012 amending certain Acts related to Parliament and local governments. As a result of the above, the audit requirement for local governments has been completely abolished as of 2 January 2013 (see footnote 12).

However, some local authorities continue to appoint auditors to audit the annual accounts. According to the latest data provided by the Hungarian Chamber of Auditors, 182 audit reports were issued on audits of local governments for the year 2020. Many municipalities have appointed auditors to provide ad hoc or regular advice, and external auditors are also involved in internal audit work in the municipal sector.

This, together with practical experience, suggests that it may be justified to conduct independent auditing in some cases in local government. Audits performed in accordance with the relevant standards and methodological guidelines, in addition to or in conjunction with SAO audits, compliance audits performed by the Hungarian State Treasury and the functioning of the internal control system, can fit well into the local government sub-system of public finances.

SOME EXPERIENCES OF TEACHING INTERNAL AUDIT IN SOME OF THE TRAINING COURSES FOR GOVERNMENT OFFICIALS AT THE UNIVERSITY OF PUBLIC SERVICE

In 2012, the University of Public Service decided to offer a focused management and control training for public administration officials in the form of a one-year correspondence course leading to a diploma.[27] In addition to the annual Public Finance Management and Control further training study programme, which started in September 2012, the Economics and Management in Public Administration further training study programme was launched in 2018.

According to Annex 1 of Government Decree 29/2012 (7 March) on the qualification requirements for public service officials, the qualification of expert advisor in public finance management and control entitles the holder to perform internal audit tasks. The training aims to reflect the comprehensive reforms implemented in the public sector after 2010 and the changed approach to management and control. Its strategic objective is to familiarise students with the content of the articles of the Fundamental Law of Hungary entitled *Public Finances and Local Governments*, as well as with the cardinal laws and other legislation of major importance related to the management of public finances, and with management and control methodology. This will enable them to perform the internal audit functions referred to in point 1 of Annex 1 to the abovementioned Government Decree and, in particular, to manage budgetary control and management systems. Knowledge of the provisions of Act CXCVI of 2011 on National Assets, Act CXCIV of 2011 on the Financial Stability of Hungary, Act CXCV of 2011 on Public Finances and Act CVI of 2007 on State Assets is particularly important. It is expected that the trainees will be informed about government programmes governing the public administration and recent governmental endeavours. The aim of the education and targeted training of practitioners in public administration is to provide government officials, public officials and civil servants with the scientific background and methodological foundations of the reorganisation of the Hungarian state within the framework of the designated subject areas. This will help them to promote the functioning of the 'Good State'[28] through their practical work. Within the framework of the further training study programme, the theoretical and practical knowledge required for the changed state administration, economic policy, economic organisation, control and regulation of the state can be transferred in an organised manner by means of case studies.

A deeper justification for the training is that the Fundamental Law and the cardinal laws provide for additional and different tasks for the central administration and the local public finance subsystem. The function of organising, influencing and controlling the economy has been expanded and a new approach has been adopted. Consequently, public administration in the interests of the country, the 'Good State', cannot be achieved without consistent, multi-faceted training and development of civil servants. Active members of the civil service must therefore become active participants who understand and act within the system. However, their previous training, decades ago, and their practical work in the 'milieu' of the NPM paradigm in the raw transition to a market economy, have limited their capacity to take on the new challenges. What is needed are well-trained professionals who are able to support the implementation of effective governance, and this can be achieved by broadening the knowledge of new public finance-accounting, auditing and public finance and by understanding the management challenges and the in-depth knowledge and methodology of public finance and auditing necessary to address them. The diploma related to the qualification is mainly useful in the fields of public finance management and budgeting and internal financial control systems, for budget managers, and in particular for the management and effective application of management and control tasks arising in the course of public administration.

The Economics and Management in Public Administration postgraduate specialisation programme, launched in September 2018, is a specialised further training course designed to enhance the financial management skills of those working in budgetary agencies, particularly in public administration with financial and management responsibilities, usually in managerial positions. The training also aims to support more informed, ethical and responsible management decisions by promoting good public finance management practices and enhancing management skills. By developing complex public finance knowledge and a leadership approach, the degree programme aims to train public managers who can manage public and municipal assets with a comprehensive approach, integrating the values of 'good governance' and a systemic approach, focusing on ethical, integrity and sustainability issues in these areas. The training will ensure the individual development of managers with management responsibilities in budgetary agencies, by providing both theoretical and practical methods. Emphasis is placed on practical sessions to analyse standards and methods of responsible financial management and the experience of the audit office and other public audits. With the knowledge gained here, the management tools and approach will lay the foundations for a more conscious, efficient, transparent and ethical management, in line with the expectations of the new public finance management that has been reorganised over the last decade. For both degree programmes, an intensive curriculum development activity has been performed[29], for which the State Audit Office of Hungary has provided methodological support. The number of students in the Public Finance Management and Control degree programme is summarised in *Table 1*, and the number of students in the Economics and Management in Public Administration degree programme is summarised in *Table 2*.

Starting with the 2012/2013 academic year, we conducted an annual survey (during the academic year), based on a questionnaire and then on personal interviews ('reinforcement'), to measure the weight and role of internal audit. The students who responded were drawn from the central and local government sub-systems of the public administration, in roughly 50/50 proportion, covering the whole organisational and territorial range of public

Table 1

HEADCOUNT FIGURES FOR THE PUBLIC FINANCE MANAGEMENT AND CONTROL DEGREE PROGRAMME 2012-2022

Academic years	Number of students enrolled	Number of graduates
2012/2013	21	18
2013/2014	18	11
2014/2015	20	15
2015/2016	39	33
2016/2017	46	37
2017/2018	24	18
2018/2019	45	37
2019/2020	27	22
2020/2021	38	28
2021/2022	36	–
Total enrolled/graduatedt	**314**	**219**

Note: the study was conducted in January 2022, so the final exams for the academic year 2021/2022 have not yet taken place, thus there is no data on graduates in 2022.

Source: Individual data from the University of Public Service, 2021

Table 2

EDUCATIONAL DATA FOR THE ECONOMICS AND MANAGEMENT IN PUBLIC ADMINISTRATION DEGREE PROGRAMME 2018-2022

Academic year	Number of students enrolled	Number of graduates
2018/2019	18	15
2019/2020	15	15
2020/2021	26	22
2021/2022	12	–
Total enrolled/graduated	**71**	**52**

Note: the study was conducted in January 2022, so the final exams for the academic year 2021/2022 have not yet taken place, thus there is no data on graduates in 2022.

Source: Individual data from the University of Public Service, 2021

administration. The importance of the answers was asked to be marked on a scale of 10. A higher number indicated a stronger value. On average, 25 evaluable responses were received per year from 2012/2013 to 2017/2018, with a total of 150 respondents providing evaluable information. From 2018 onwards, management students were also included. By January 2022, as an annual average of the last four years (of the two-degree programmes) 45 people responded, i.e. in total 180 people. In the latter period, the respondents to the survey, which has now been extended to two-degree courses, were proportional to the total number of degree courses and cover a large part of the population (over 80 per cent). 330 respondents provided evaluable data over the 10-year period.

The recurring questions were as follows

❶ How independent do you feel the internal audit function is in a given budgetary institution?

❷ Do you consider that the internal audit activity is properly regulated in your institution?

❸ To what extent is internal audit involved in decision-making (advice)?

❹ In your opinion, to what extent are the findings of the audit of closed economic processes used in the institution?

❺ To what extent do external audit institutions (SAO, governmental audit) rely on internal audit reports?

❻ In the case of an appointed auditor, how strong do you feel the 'pulling effect' on the audit and financial management of the institution is?

❼ A new question has been added from 2015: What has made a significant difference to the increased emphasis on internal audit? Possible answers:

a, extension of the legislation?

b, more norm-conforming institutional management?

c, a more favourable macroeconomic (public finance) environment?

Based on the responses received (not detailed for reasons of space), the following trends emerged. The independence of internal audit between 2012 and 2015 was rated as medium (5-6) by the respondents, which can be explained by the fact that the practice still very much reflected the previous relaxed fiscal and control discipline until 2015, and the change in the quality of the data content from accrual-based public finance accounts introduced in 2014 was only noticeable from 2015 onwards. However, for 2016-2021, the results show a strengthening of the independence of internal audit. On average, scores of 7-8 were obtained. The regulation of internal audit at the institution has a strong correlation with the independence of internal audit, because as the law has become more comprehensive, the internal regulatory environment for fiscal management has also become more stringent, with a significant shift towards independence of internal auditors.

The involvement of internal auditors in advisory services (question 3) does not reflect a significant shift, or significant differences, over the last ten years. The capacity of internal audit is mainly limited to the control of closed economic processes. The values obtained for advising range between 4 and 5. The lack of a positive shift may be due (also) to the emergence of political motivation in decisions of a predominantly political nature or taken by political bodies (ministries, agencies, representative bodies, committees), i.e. a purely professional approach to internal audit is not exclusive, and thus internal auditors are not strongly and openly capacitated to provide advice.

As regards the utilisation of internal audit findings (question 4), the assessment of the respondents is explicitly forward-looking and improving. Based on respondents' averages, they rated the incorporation of their reports into subsequent economic processes as average (normal) until 2015, with a slight improvement until 2019, increasing to a score of 7. However, in the personal interviews, the respondents explained that the use and possible correction of the information (reports) obtained from internal audit by political bodies (management levels, councils, committees) takes place by incorporating social aspects (similar to the case of advice).

Thus, the internal audit reports provide a factual basis, but decisions for the next period are taken (with some correction) in line with social needs and political expectations, i.e. the utilisation of the reports is not complete.

The reliance of external audit institutions on internal audit work (question 5) shows a strong improvement, which respondents date from the introduction of accrual-based public finance accounting and the 'maturing' of stronger audit legislation and powers, i.e. from 2014-2015. During the personal interviews, it was reported that the reliance on internal audit by external audit bodies was formalised in the period before 2012-2015. A positive element mentioned by the respondents was the practice of the State Audit Office of Hungary using internal audit (also testing the effectiveness of internal audit).

Responses to question 6 (on the auditor function) were generally mid-range over the ten-year interval as a whole. The auditor is perceived as an 'employee' of the budgetary institution rather than as a representative of external control, a factor which is also influenced by the multiannual and recurrent engagement cycles. At the same time, the auditor's work on internal audit and the financial management of the organisation is seen as necessary, an additional control, but rather a consultative opportunity.

As for question 7, respondents explicitly cited legislation and a more favourable public finance situation as reasons for the improved institutional importance of internal audit. The dynamics of strengthening of these items (alternatives a and b) are striking, from scores 5-6 in the period 2012–2015, rising to scores close to 8-9 by 2019, while the strength of responses to alternative c seems to fade from 2020 onwards, but the weight and importance of internal audit is still explicitly felt to be strong by survey respondents even during the crisis years 2020-2021.

CONCLUSIONS

The ongoing public finance reform from 2010 onwards, driven by a stronger commitment to good governance, has led to a strengthening of the role of budgetary control. Legislative rules provide a stable framework for improving management discipline and for ensuring that public spending is in line with standards and improves efficiency. The Ministry regulating internal audit and the State Audit Office of Hungary, which plays a key role in the methodology of internal control, have created an exact system of internal norm controls, thus enhancing the role and importance of internal audit (see the results of empirical research). The research shows that, although the advisory role of internal auditing has not increased, contrary to expectations, the internal audit reports are increasingly integrated into decision-making processes. The comprehensive legislative regulation of public financial control, including the parts of it that apply to the internal control system of budgetary managers in accordance with the budgetary order, and the continuous improvement of the control methodology, will lead to a steady improvement in the independence and weight of internal audit. Both the fiscal crisis of 2006 and the years of internationally escalating crisis from 2007–2008 onwards, and the tightening of public regulation to consolidate them, have led to an increased role for public financial control, including internal audit. The economic downturn caused by the coronavirus pandemic, due to tighter budgetary resources, has also pushed the system towards greater management discipline and tighter control. Greater emphasis is being placed on centralising and using public funds in a standardised and efficient way.

The interviews performed confirm that further improvement in internal auditing is justified, which should be accompanied by a continuous modernisation of training. There is a clear need to increase the depth and complexity of knowledge in budgetary control and accounting, which raises the possibility for the university to offer qualification as budgetary chartered accountant (in parallel, and integrated with the audit training), building on the existing training, and to provide the additional teaching material that this entails. This could contribute to the further development of the quality of the control system and the professional prestige of the internal audit function, which would improve the organisation, effectiveness and efficiency of budgetary management.[30] ■

Notes

[1] Földes, (1900) Page 481

[2] The levels and workflows of budgetary control involve the use of public funds. Therefore, it does matter how significant the findings and deficiencies identified are and how they will help budget management in the future. The identification of real and serious problems entailing risks underpins the justification of control and the return on the public money invested in the control processes.

[3] DPM paradigm: Decentralisation, Privatisation, Management.

[4] See the works of Drinóczi (2012) and Téglási (2019) in this context.

[5] Kukorelli, (2020). pp. 11-18

[6] See, for example, the works of Bod, 2012; Kovács, 2010; Klicsu, 2012 relating to this topic.

[7] CNPG paradigm: Centralization, Nationalization, Public Good (own conception).

[8] On trust and integrity, see: Pulay, (2021).

[9] Although the effectiveness of accrual accounting is widely disputed (e.g. Tóth, 2020; Molnár, Hegedűs, 2017), the author of this paper sees its changes, overall, as a positive, forward-looking shift (Lentner, 2020). Compare the opinions with the original objectives: Bathó, 2012.

[10] Council Directive 2011/85/EU of 8 November 2011 on Requirements for Budgetary Frameworks of the Member States. Official Journal of the European Union L 306/41 23.11.2011

[11] Government Decree 368/2011 (31 December) on the Implementation of the Act on Public Finances contains detailed rules of implementation in line with the structure of the Act on Public Finances. Government Decree 4/2013 (11 January) on the Accounting of Public Finances and Government Decree 370/2011 (31 December) on the Internal Control System and Internal Audit of Budgetary Agencies are closely related to the implementation of the Act on Public Finances. All three government decrees implement regulations governing the management of public finances, which provide for the completeness of planning, implementation, reporting obligations and audit tasks for the institutional system, both for the central and local subsystems of public finances.

[12] For a more extensive discussion of the taxonomic diagram (with fiscal-monetary aspects), see Lentner, 2019, Chapter VII.

[13] It is common in the literature (see for example Kovács, 2010; Szilovics, 2020) to include the

functioning of the selected auditors in the category of external audit. The first two decades of the transition to a market economy witnessed a dynamic rise in the prestige of the audit profession in the public sector, but the mandatory nature of the audit of municipalities was lifted by legislation after 2010 (in some institutional circles), a key factor in this was that the dangers of excessive commitments (foreign currency bond issues, borrowing) by municipalities between 2004 and 2008 were not sufficiently highlighted by the auditors. In addition, an auditor engaged by the budgetary institution may no longer constitute a genuine and effective external audit. In terms of its impact, it may be comparable to the internal audit for certain types of budgetary institutions. On the other hand, public finance controls and methodological procedures have evolved spectacularly over the last decade. However, acting in an advisory role, or even continuing ('voluntarily') as an elected auditor, can improve the financial management discipline of an institution.

[14] Due to the independence of Magyar Nemzeti Bank, the audit powers of the State Audit Office of Hungary only cover the bank's asset and payroll management and its budgetary relations (e.g. equalisation reserve). See more: Domokos, Pulay, Szikszainé, (2021). For areas not related to monetary policy, the central bank applies an internal audit system and its annual accounts are certified by an auditor. The shares of the MNB are owned by the state. The state is represented as shareholder by the minister responsible for public finances. Pursuant to Section 14 (1) of Act CXXXIX of 2013 on the Magyar Nemzeti Bank (MNB), the Supervisory Board is the body responsible for the MNB's continuous ownership control, other than monetary policy.

[15] The German Basic Law already institutionalised the so called golden rule linked to gross investment in 1969.

[16] See Article 44 of the Fundamental Law.

[17] See: Szilovics, (2020) pp. 94-97

[18] Just as in the functioning of market formations, strategy has a fundamental influence on the allocation of resources (see Zéman, Kecskés, 2018), in the public finance sector, political motivation (or socio-economic interest imbued with this motivation) will be a factor that will have a very strong influence on resource management, making control activities, especially internal control at the level of individual institutions, more complex and even difficult. Ultimately, internal control (whether in the market or budgetary area) assists the executive officer responsible for the financial management of the organisation, and is subordinate to him, so its objectivity cannot, by definition, reach the level of, for example, the SAO or government audits.

[19] International Standards for the Professional Practice of Internal Auditing (Standards): The Institute of Internal Auditors, Altamonte Springs, USA, 2021.

[20] See more: Internal audit standards for public finances in Hungary. Guide, Ministry of Finance, 2021.

[21] Guidance on the preparation of the annual audit plan and the summary annual audit plan, and the annual audit report and the summary annual audit report to be prepared under Government Decree 370/2011 (31 December) on the Internal Control System and Internal Audit of Budgetary Agencies. Ministry of Finance (2021).

[22] Code of Conduct for internal auditors. Ministry of Finance (2021).

[23] One important professional partner is the Hungarian Chamber of Auditors and its Budget Section, which coordinates the professional

training of budgetary auditors on an annual basis.

[24] See for example: Report on the state and functioning of the public finance internal control system in 2020. Ministry of Finance, 2021. It also proposes amendments and clarifications to the relevant legislation in this field: for example, Proposal to the Government for the amendment of the legislation on internal controls in public finances. Ministry of Finance, 21. September 2021. Regarding the legislative changes, it should also be noted that the latest submission to the Government (September 2021) includes the planned amendments to the Bkr. and the Gtbkr., as well as the new regulation of certain provisions of the EUTAF Regulation. The proposed amendments have not yet been adopted or entered into force (by the time this manuscript was finalised in January 2022), so the normative text of the relevant regulations does not yet include the proposed amendments.

[25] The amendment of the Public Finances Act by Act LXXXIX of 2021 resulted in minor changes to the internal audit regarding the register of persons authorised to perform internal audit activities.

[26] Other important guidelines and methodological recommendations of the Ministry of Finance include the Internal Audit Model Manual and the Public Finance Internal Control Standards and Practical Guide 2021. For the internal audit of the public entities as understood in public financial management, the Guidelines for the Establishment and Operation of Internal Control Systems for Publicly Owned Enterprises (December 2020) and the Manual for the Establishment of Internal Control Systems for Publicly Owned Enterprises (February 2021) provide guidance.

[27] At the University of Public Service, since 2012, Budgetary Control has been included in the BA and MA courses in the Public Finance subject block and in the Budgetary Control subject block. For the government officials' professional exam, audit knowledge is covered in the compulsory module on Public Finance and in the optional module on Financial and Budgetary Management. See the syllabus for the latter two subjects: https://kti.uni-nke.hu/document/vtkk-uni-nke-hu/szv_tankonyv_3_modul_2021.pdf and https://kti.uni-nke.hu/document/vtkk-uni-nke-hu/szv_tankonyv_penzugyi_es_koltsegvetesi_igazgatas_2021.pdf (downloaded: 01.01.2022)

[28] I interpret the concept of the 'Good State' primarily on the basis provided by László Domokos (2019). The inticated concept is synonymous with 'Good Governance', i.e. the careful planning, organisation and control of well-managed public management. In other words, a well-governed state is an ensemble of well-managed, efficient, and norm-conforming organisations.

[29] An overview of curriculum development is given in one of our comprehensive publications, Füredi-Fülöp 2020, and in the foreword to this book: Lentner, (2020) https://www.researchgate.net/profile/Csaba-Lentner/publication/337399837_Eloszo_a_Koltsegvetesi_szervek_belso_ellenorzese_szakkonyvhoz/links/5dd567d3a6fdcc37897d6cfc/Eloszo-a-Koeltsegvetesi-szervek-belso-ellenorzese-szakkoenyvhoez.pdf (downloaded: 01.01.2022

[30] In addition to the duties of the internal auditor, the trained government official will be able to perform the management and administration of the tasks falling within the scope of accounting services as defined in Section 150 (2) of Act C of 2000 on Accounting, the preparation of budgetary reports, as well as all the tasks falling within the scope of accounting services in public finance organisations subject to Government Decree 4/2013 (11 January) on public finance accounting.

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