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About the Sustainable Good Governance

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NEW NORM – VALUE CREATING AUDITS – GOOD GOVERNANCE

The State Audit Office of Hungary, established in 1870 and re-established after the political transition in 1989, has renewed its operational processes and organisational structure over the past 10 years. The book About the Sustainable Good Governance analyses this renewal process in the context of legislation and economics.

The author, *László Domokos*, is the President of the State Audit Office of Hungary and has decades of comprehensive management experience in the public sector. The book, which is of exceptional scientific and professional quality and is based on the author's diverse experience in management and decision-making, focuses on how public sector auditing contributes to sustainable good governance.

Developments that have already been implemented and that are in progress include amended internal processes in the whole spectrum of planning and utilisation, the reinforcement of quality assurance and human resources management, and efforts to rise up to the challenges of digitisation. From the point of view of the State Audit Office, I believe that the greatest benefit of this change in quality is that the SAO, acting as a catalyst, has managed to provide local, national-level answers to the global challenges presented by a turbulent environment that contribute to the long term sustainable development of Hungary through spending taxpayers' money in an efficient and well-considered manner. More specifically, by providing a guarantee for ensuring public good and reinforcing good governance, the SAO has created a dynamic model that, in the author's words, *'is driving and developing the reinforcement of good governance, thus facilitating the consolidation of sustainable society'*. In his foreword, the author describes the motivation for writing the book along these ideas, and he believes that it is catching up, which is closely related to the sustainable economic performance of the country, where the state must play a role and assume responsibility. He highlights the role of supreme audit institutions when describing the guarantees for ensuring public good and reinforcing good governance and how they can contribute to the sustainable development goals of the United Nations.

In my opinion the publication of this book in itself has contributed to good governance, as it elevated the systemic approach that includes the contributions of supreme audit institutions and the 'good governance' SAO model to a scientific level. The dynamic model of SAO auditing is not completely new though, its predecessor, the first static model was created in 2016 and the new, innovative and dynamic model was developed in 2019. The author's dedication to this topic is reflected by his 2016 PhD dissertation at the National University of Public Services, *Supporting good governance through the renewal of the activities of the supreme audit institution,* which is an important point of reference and pillar of this widely researched and discussed topic. Consequently, the newly-published book can be considered as the continuation and deepening of the author's research, which serves the public interest, and, considering its new professional and scientific content, also as the fulfilment of this research.

The eye-catching cover already conveys an important message. The two key expressions positioned in the upper and bottom third of the cover that get the readers attention are *good governance* and *audit.* Interpreting this as a framework, in the middle third we see the words *National Assembly, Government, Audited entities, Professional-scientific audience, Bodies using public funds, Society* as they point towards the implementation of good governance. This means the cover is also an efficient means of communication towards potential readers: every member of the society, the reader included, is affected by the effective operation of the good governance audit model.

This high quality book definitely fills a gap: the author has created real value. The book redefines and extends the role of the State Audit Office of Hungary, reinterprets quality in the audit process and reacts to the changing environment by defining flexible focal points for risk identification and risk assessment.

The introduction is an overview of economic history, it describes how the role of the state strengthened in the economy and in the society. For this, the reform of the institutional system, including public finances and auditing, was key. To quote the author: *'By now, good governance has become an idea which can be described by a complex set of criteria, and which can measure the performance of individual economic policies and state structures.'* In this sense, the only common denominator that can be the basis of good governance is the promotion of public good, where values stemming from serving the public, i.e. expertise, objectivity, impartiality, moral integrity and the interest of the community, are essential. The fact that the supreme audit institution is independent of the government cannot mean it is independent of good governance. In this sense the constitutional position and independence of the audit organisation ensure that findings are unbiased and objective and that the methods of auditing are selected freely. These conditions are the basis of how auditing can contribute to good governance.[1]

As the lessons of the 2008-2009 financial-economic crisis highlighted the state regulation of the market and the importance of a close cooperation between the active state and the market (private sector), the increasing areas of contact and cooperation called for a new attitude and an integrity-based approach in the fight against corruption.

Another aspect that makes this book so topical is that the European and wider international processes of the transitional and recovery periods after the 2008-2009 financial-economic crisis require efficient responses on a national-institutional level that can only be provided effectively if there is a systemic approach and if focus is on sustainability in the long term. We have seen the implementation of a number of successful and failed crisis management philosophies, and we should learn a lesson from those. The 2010-2011 period was a turning point for the SAO, as it was confirmed legally that the utilisation of audits is an essential pillar of the contribution to good governance. In addition, on the one hand the changes in trends extend the time horizon of planning, increase the need for developing strategies, building capacities and sharing knowledge extensively, and they also require the detection and identification of risks, and, on the other hand, they also require flexible and quick responses and adaptation to the changes of the environment. A unique and novel element of the introduction is the map created by the author, which serves as a logical compass for reading and understanding the book. This is yet another manifestation of the author's valuable systemic approach.

After the introduction, László Domokos presents the results of auditing's contribution to sustainable good governance, and the relevant development paths and tools for the future in 11 chapters.

Chapter 1 presents the idea of the well-managed state and the basic principles of the Hungarian model in relation to the characteristics of the manager of the well-managed organisation. I agree with the line of thought presented in the book and with the author's definition that says that *'the well-managed state is the totality of well-managed organisations'.* The author highlights the following audit experiences as basic principles relevant to the approach of the Hungarian model: *'order is a value and every rule is only worth as much as it is obeyed'.* The first line of defence in public finance auditing, internal control, provides continuous support to the manager in this aspect, and it lays the foundations of public trust, which stems from accountability and transparency, since *'transparency is the friend of the manager, not an obstacle to their work'.* Managers will surely benefit from an attitude stemming from this realisation, as they themselves will experience advantages, while the proper financial management of the well-managed organisation will contribute to the strengthening of the state and it will also increase public trust.

In Chapter 2, a logical presentation of the conceptual background and basic principles of good governance makes the connections between good governance and auditing clear for the reader. The author describes *good governance,* the Hungarian interpretation of the concept, within the framework of the well-managed state, as a '*dynamic, cooperative*' state, with the '*State Audit Office of Hungary acting as a guarantor*'. Obviously the well-managed state describes an optimum condition, a goal that *'benefits the cooperating parties and helps promote the public good'*'. The author turns to a study by the World Bank and the United Nations Millennium Declaration to point out that the need for good governance has been increasing internationally since the 90s. He provides a detailed picture of the basic principles of good governance, citing experiences of international organisations and integrations, drawing the reader's attention to similarities and major differences as well. He describes what goals and basic principles are needed in public sector auditing to support good governance with high added value. Good governance, the author says, is an optimisation activity during which *'the government develops and implements policies and programmes and provides services that bring significant added value for the population and society through changes in processes and institutions'*. As for the methodology of this process, it incorporates the PDCA-cycle, which is used in quality assurance in management science and focuses on continuous improvement, and the 3 INTOSAI requirements, effectiveness, efficiency and economy. The author highlights that the new SAO Act of 2011 added analytical and advisory functions to the tasks of the SAO, in addition to the traditional audit function. The analytical function contributes to the work of the Fiscal Council with analyses and studies, while the advisory function is present in innovative developments like the self-test system, which has been available since 2014 and was developed by the SAO to detect risks and explore typical errors. In my opinion, this development shows the approach of the SAO, which is centered around support, guidance, innovation and practical implementation.

Chapter 3 summarises how good governance can be served by institutions, based on the international auditing practices of supreme audit institutions. In this aspect, the central goal of SAIs must be, on a national level, to become *independent model institutions'* and, on an international level, to *'promote good governance globally'*, especially to *'support the long term sustainability of financial policies'*. I must add that the latter is closely related to the conclusions of the 2008-2009 financial-economic crisis regarding financial stability. The author describes the significance of basic principles from the aspect of developing standards, and describes the role standards from the aspect of the perception of audit results. The key requirements, which also increase public trust, are independence that guarantees objectivity, accountability, transparency, high level public services, leading by example, adhering to ethical codices, and capacity building through training and knowledge sharing.

Chapter 4 describes the implementation of good governance and the fulfilment of the requirements of INTOSAI in the operation and activity of the State Audit Office of Hungary as a model institution. The author describes the legal, organisational, personal and financial independence and guarantees in great detail, in an organised manner, highlighting causal relations. He establishes that in relation to independence, *'legal regulations are fully compliant with relevant international principles and standards, there is no need to initiate the amendment of current legal regulations to achieve those'*. In addition, *'the foundation on which the constitutional status, the relevant laws and the independence of the SAO is based is stable'*. The author assesses compliance with the requirements of transparency and accountability based on ISSAI 20. In this assessment, the author conducts an analysis: the legal aspect is analysed through reports, based on the Fundamental Law, the mandate and publicity are analysed through institutional communication, while auditing is analysed through the implementation of objective, transparent auditing standards, processes and methods, including the focus and objective of the audits. Here I would like to highlight some elements in the chapter that are associated with a changing attitude, where positive change is conspicuous and which can be seen as resources actually supporting good governance:

- a supportive, guiding attitude and dialogue,
- integrity surveys, continuously conducted for 9 years, which support the integrity culture and are internationally acknowledged,
- the ethical public funds management training, provided in cooperation with academia,
- the implementation of the criteria of lawfulness, expediency and efficiency in the operation of the SAO, as provided for in Section 43 of the Fundamental Law,
- the social significance of the flow of information about the reports and of process monitoring,
- contribution to quality legislation through proactive legal consultancy,
- flexible response to changes in the environment and in risks,
- the use of human resources, on management level, to create added value through proposed ideas,
- the SAO as partner, through creating added value and through the acceptance and acknowledgement of its advisory role,
- comprehensively revised audit plans, the development of the performance audit module,
- helping the decision-support activity of the renewed Fiscal Council, where resources can be used in a rational way (Hungarian Central Bank, SAO, Fiscal Council) and decision-making can be based on all-year monitoring,
- the activities of the SAO are, as a result of a positive interaction, integrated into the decision-support activity of the Fiscal Council through multilateral utilisation and user-friendly traceability,
- quality-driven operation, and
- the implementation of the project management approach.

In Chapter 5, the author describes, in detail, the first, static SAO-model, created in 2016, along with the dynamic SAO model developed in 2019. I believe that the two models need to be presented together, like the author did, considering that further developments are necessitated by the turbulent environment. As state governance was renewed, the conceptional renewal of the SAO's activities was also necessary, as an active state called for more active state institutions as well. So we can establish that in addition to meeting the international criteria and basic principles of *good governance,* the dynamic model developed is active, flexible and adaptable and it is capable of acting, renewing and responding. This further development made it necessary to apply some management methods that are widely used in the private sector in the public sector as well, establishing quality-centred management. As a result, in the 5-tier model, great emphasis is laid on results and performance criteria. Here we should highlight that the role of exposing the system-level problems of quality legislation, from a prevention aspect, and voluntary compliance as the cooperation between auditor and auditee, from the aspect of lawfulness, were taken to a new level. In the context of accountability and transparency, communication and the flow of information towards society are based, as a point of reference for the whole society, on clear and comprehensive information that relies on credible data. According to the economic and financial sustainability aspects of the Hungarian model, crisis prevention is a concept closely related to the need for stability. As state institutions lead by example and strive to achieve effective and efficient financial management, which is a milestone in economic history, and as proactive risk management and change management emerge, there is a need for flexible and adaptive institutions as well.

In Chapter 6, the author describes the role of capacity building from the SAO's point of view, and he also makes a recommendation regarding the framework for capacity building in the organisation. The author's experience also suggests that capacity building has been a key strategic goal for 15 years internationally, and here capacity building does not only mean quantitative increase, but there is also a qualitative aspect i.e. an increase in efficiency. We can see that feedback plays a permanent role in capacity building in the SAO's operational philosophy, as the connections of theory and practice are also long term priorities. The integration of the SWOT-analysis is a valuable element in a practical-theoretical context as well, and how the ratio of factors that support or hinder change evolves over the time period of the project is also a key element of the capacity building process. In this aspect the key to success is to consolidate the results of the change. László Domokos points out that *'The SAO promotes the regulation and regularity of entities and institutions using public funds by means of voluntary self-tests.'* Resources can be saved by filling in and evaluating the self-tests, and this also supports preparation. I believe that this tool contributes to the SAO's modernisation efforts, as it satisfies the need for learning and preparation in the public sector, and it will also help the automation of the system in the future.

In Chapter 7, the author provides an overview of the trends of the SAO's modernisation programmes. The starting point is the fact that was confirmed in the previous chapter, namely that in line with the goals laid down in the SAO's medium-term strategy, *'the SAO's activity has reached a level of development that meets the INTOSAI requirements regarding model institutions'.* The main trends of this modernisation programme:

- supporting good governance globally,
- promoting sustainable economic-financial development,
- capacity building and becoming an innovative, self-learning organisation.

In line with the main trends mentioned, the author points out the importance of project based operation, which is related to task-centeredness, and he presents the advantages of the matrix organisation (as an organisational form) and describes how a quality-centered approach can contribute to a change in organisational culture. Regarding performance assessment, we must note that objective performance assessment is closely related to personal responsibility and the intention to deliver quality work.

In Chapter 8, the author discusses the audit reports of the SAO in the context of their potential to bring about changes in the organisation. The legacy of the former shortage economy and its scarce resources represents a kind of 'soft' budgetary constraint for those responsible for managing appropriations. László Domokos recommends 3 changes to end this practice of 30 years: to define tasks by phase, with allocated budget and order of implementation; to separate internal management; and to increase the capabilities of internal auditing and supervisory/proprietary auditing through defining personal liability. The author believes that the most effective way to implement change is through projects, where project members are managers with a motivation to change who will also benefit from a successful change management process. The author is right to point out that timing is important and that for consolidating the results of change, consistency and persistence are essential.

In Chapter 9, the author says that based on the mission and vision laid down in the SAO's strategy, it is key that *'staff members must* *convey a sense of vocation to the citizens and they need to meet the expectation of the environment, which is based on public trust'.* The challenges of the labour market today and the changing expectations of employees also affect the public sector, so in addition to the mission and vision of the organisation, László Domokos points out fundamental values related to employees – 6 of the 9 fundamental values of the SAO affect employees. He recommends the strategic areas of liaising and communication, human resources management and digitisation as examples for other organisations. It is important that the SAO doesn't view human resources only as servers, but it also recognises and emphasises human dignity. At the same time, the SAO sees digitisation as a priority area of innovation. Interpreting innovation as a functional strategy, the coherence of mission and vision needs to be achieved. The author underlines that in the era of Industry 4.0, transparency and accountability regarding digitisation and data explosion must be increased, we need unified IT systems, and the importance of data security is increasing. As the environment changes, a new, digital audit environment emerges where the focus is on real-time data of real-time audits, which calls for a new audit approach.

▌*In Chapter 10,* the author describes public sector management and draws the reader's attention to the importance of the performance of managers. Discussing two aspects of the system of public sector management, the author finds that, on the one hand, it defines tasks to organise public functions, while, on the other hand, it ensures implementation according to the classic functions of management as defined by *Fayol* (planning, organising, commanding, coordinating and controlling). As the state becomes more active in the economy, corporate management in the public sector becomes increasingly important, and in the unified management model the common goal to work for is defined as operation to promote *public good.* The need to renew public sector management also comes up in the context of the requirements to comply with rules, as it is a necessary but by no means sufficient condition of effective and efficient operation. Challenges related to public trust are identified as the main challenges, along with professional, management and ethical challenges, challenges in competitiveness, employment, sustainability and finance. The author's constructive conclusion in this area is that '*ethical and efficient managers are needed in the public sector'.* However, audit experiences in state or municipally owned business associations show that the implementation of a long-term investor approach that increases state property must be one of the aspects of the operation of the state.

▌*Chapter 11* introduces the reader to a new approach, to auditing as a guarantee for the sustainability of a well-managed state. The SAO's ISSAI 40 quality management policies are described to present how quality assurance can support public finance management effectively. A key feature of the Hungarian model is that, according to the author, auditing is a guarantee for trust. The State Audit Office of Hungary has developed 5 main functions to achieve this: auditing; evaluation and analysis; advisory activities; providing opinions; and supporting sustainability.

The *Closing thoughts* section completes the logical framework of the book.

About the Sustainable Good Governance represents added value, firstly in the process of transforming attitudes in economics, and, secondly, in the international context of integrity – through experiences in administration in Hungary. This is a novel handbook which will be instrumental in community formation.

It definitely fills a gap as it describes the new directions and focuses of public sector auditing and the framework of the operation of the modern state as an integrated whole, and I heartily recommend it to economic decision-makers, social operators, business managers, experts, researchers, academics and students.

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Note

[1] After the Fundamental Law of Hungary was adopted in April 2011, the first cardinal act, which became effective on 1 July 2011, was the new SAO Act. It reinforced the independence of the SAO, extended its scope of competence, added to its range of tools, increased its transparency and put an end to a period of audits without consequence. It also required the SAO to support the good state, the equivalent of *good governance* in Hungarian legislation.