




STRENGTHENING INTERNAL AUDIT CAPACITIES IN THE HUNGARIAN PUBLIC SPHERE

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European Union countries' currency status

-  Euro area
-  Currency pegged to euro
-  Floating currency



HUNGARY AND THE EUROPEAN UNION

- European Union of (now) 28 countries
- European Commission, Council and Parliament
- Accession of Hungary in 2004
- Systems and legislation had to be harmonized to EU law
- Subsidies from EU to MSs



AT THE START OF THE REFORM

CENTRAL HARMONISATION UNIT

- *The CHU is responsible for developing and promoting **internal control and audit methodologies** on the basis of internationally accepted standards and best practice and for coordinating the implementation of new legislation on managerial accountability (financial management and control systems) and internal audit.*

FUNCTIONS OF CHU

- 1: To analyse control systems and introduce the new laws and regulations
- 2: Ongoing staff development of Public Internal Financial Control
- 3: Monitoring
- 4: Networking



Determination

CONDITIONS FOR SUCCESS OF CHU

- Changes cannot happen over night and should be **planned very carefully** and realistically
- **Broad discussion** of the reform
- **Understanding** and acceptance of why changes are needed.
External factors stimulate reforms but success depends on the ability to change and think in a new way → attitude and ownership!
- **Political will and support**
- **Trained staff** familiar with international standards and good practices



Human resources management

Auditors need a different viewpoint



HISTORY

- Project: Improving Public Internal Financial Control system, Audit Mechanisms and Skills
- The wider objective of the project is to increase **S**ound **F**inancial **M**anagement (*economy, efficiency and effectiveness*), development of the Hungarian Public Internal Financial Control (PIFC) System based on **COSO** principles
- One of the main means of the developments is to organize professional trainings for internal auditors and financial managers in budgetary organizations in order to keep their knowledge up-to-date
- In order to achieve the above mentioned objectives, a major aim of the project was to establish a **PIFC Methodological and Training Centre**

ESTABLISHING THE SYSTEM

- As a first step the trainers' selection for the Centre and their training were carried out – 45 trainers („train the trainers”)
- The next step was to create and develop training material, especially an e-learning framework system and the preparation of e-learning modules in order to satisfy the needs to provide flexible, mass-training for a great number of (eventually remotely located) participants
- After that the MoF has ensured needed equipment for the trainers (laptop) and MTC training sites
- Important step was the establishment of the legal obligation of the continuous training

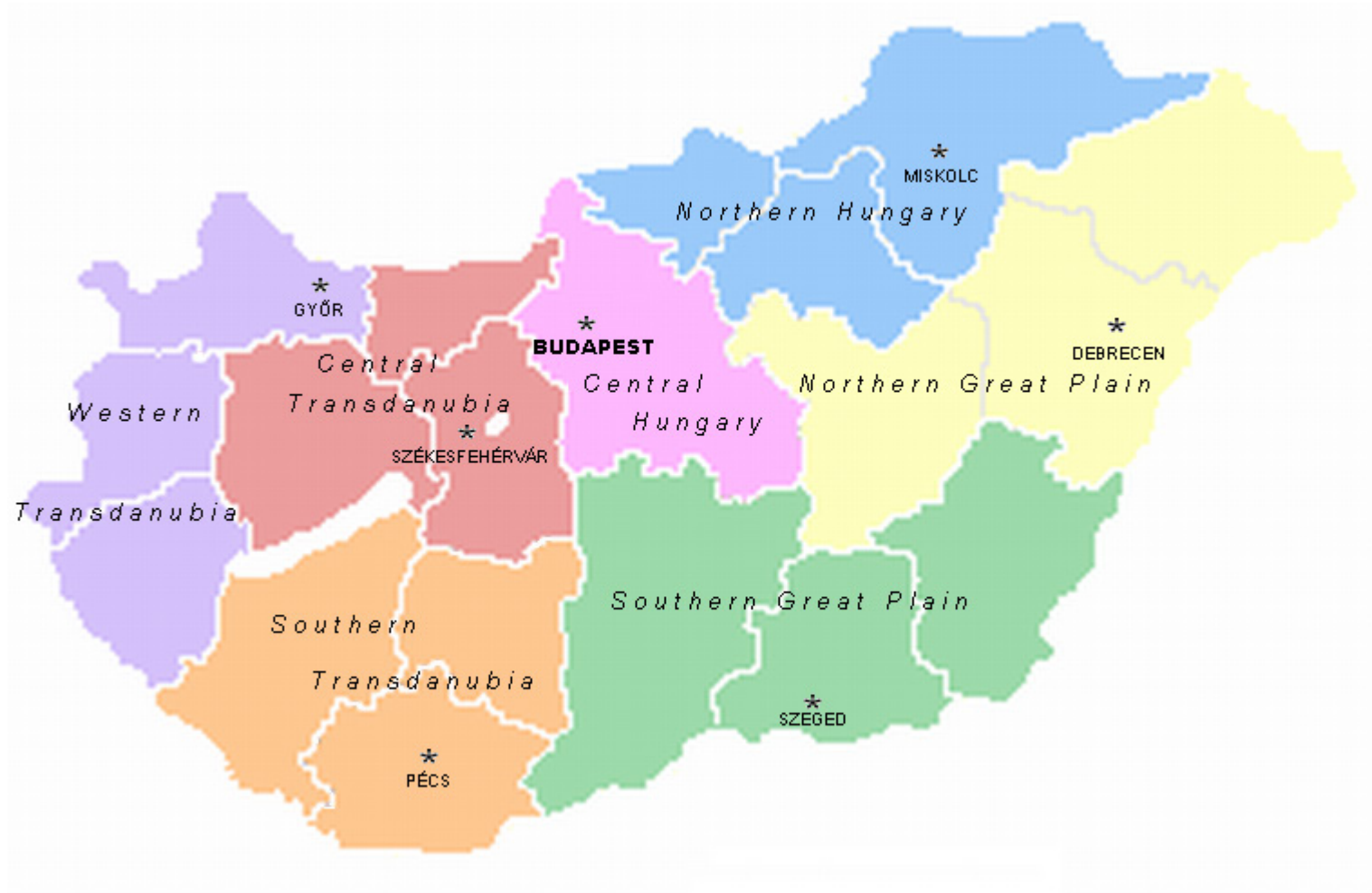
LEGAL BASIS

- The Minister of National Economy (MNE) is responsible for the establishment, operation and professional management of the MTC
- Public Finance Act (PFA) declares that an **internal auditor** of a public budgetary organisation has to be licensed by the MNE, which means that the auditor has to be registered
- In accordance with the regulations of the PFA the PBO's **Chief Financial Manager** and even the **Head of the PBO** shall also attend professional PIFC related training regularly
- Ministerial Decree on the registration and continuous professional training of internal auditors contain the rules for vocational training for the public sector internal auditors

HOW THE SYSTEM WORKS?

- Currently the MTC works within the organisation of the National Tax and Customs Administration's Training, Health and Cultural Institute
- Internal auditors are obliged to attend vocational training in **regularly**
- At the first time internal auditors should take **an exam** in the subject of the „**Public Internal Financial Control I.**” (with three obligatory modules) in the next year of their registration
- Then they shall perform one freely selected module from the modules of the „**Public Internal Financial Control II.**”
- Failing to complete these obligations, the internal auditor will be deleted from the registry – that means they lost the permission of the MNE
- The trainees can choose from the following two forms of training: e-learning and face-to-face training
- On the basis of the **cooperation agreement** between the MNE and MTC the infrastructural background of the Centre is provided by the central and 6 regional establishments of the Institute

REGIONS



„PIFC I.”

- *General introduction module*
 - 1. Public finances
 - 2. European Union and Hungary
 - 3. Control system of the public administration
- *General internal audit module*
 - 1. Legal basis of PBO's internal audit
 - 2. Guidelines relating to internal audit issued by the Ministry
 - 3. Internal audit's standards and practice advisories
 - 4. New methodologies in the area of internal audit
- *Public Internal Control (PIC) System module*
 - 1. Corporate governance
 - 2. The COSO model
 - 3. PIC in Hungary
 - 4. Managerial accountability

„PIFC II.”

- **16 modules, for example:**
 - Value for Money Audit
 - System Audit
 - Control of subsidies from the European Union
 - Control of public procurement
 - Audit of IT systems
 - Control of public accounting

E-LEARNING

- The e-learning course contains 265 recommended lessons
- The access to the electronic learning material (curriculum) in ILIAS is provided for the participants of the training for 60 days
- During this period of time the trainee can open the electronic curriculum via the Internet either at home or in the office at any time and he/she can acquire it by self-training or – if it is needed – with tutoring assistance
- After processing each of the learning material and completing the module tests the participants may try to pass the exam
- The ILIAS makes possible to carry out the tests related to learning material
- The last day of the training the trainees who chose the e-learning training take their end-of-course test at the selected place and in the exam-group having chosen during the registration for the training

FACE-TO-FACE TRAINING

- For internal auditors it takes 3 days - 21 lessons including 20 x 45 minutes lectures
- For Heads of PBOs and Financial managers: 1 day – 8 x 45 minutes lectures – only the third module of the „PIFC I.”
- Presentations by trainers at the selected date and place being chosen by the trainee during the registration for the training
- At the end of each course there is an exam, which lasts 1 hour (60 minutes)
- The supervised exams will take place at the chosen course-place, through the 'ILIAS' learning management system.

MANAGEMENT OF THE MTC

- Annual Training Plan is financed **by national budget** (in Chapter of MNE) – only the e-learning is free
- The MTC register all applicants for the trainings and signs teaching and tutoring contract with the trainers appointed by the MNE
- Exams are held at MTC in every case (passing limit: 60%) and there is a possibility to perform an „ex-ante” exam – 80% - if somebody succeeds then he/she is exempted from training
- The training materials are updated yearly

NUMBERS PER YEAR

Modul	Type	Number of courses	Number of applicants	Number of issued certification
PIFC I. – Internal auditor	F2F	2	48	47
	E- learning	8	162	140
PIFC I. – financial manager and head of budgetary units	F2F	20	632	609
	E- learning	4	851	791
PIFC II. – Audit of public procurement	F2F	6	169	162
	E- learning	3	158	153
PIFC II. – System audit	F2F	12	365	349
	E- learning	3	273	269
PIFC II. – Value for money audit	F2F	10	254	248
	E- learning	3	161	159
PIFC II. – Control of EU funds	F2F	8	209	204
	E- learning	3	170	168
Total:		82	3452	3299

RELATIONS OF FINANCIAL CRISIS

- Less resources for internal controls, internal auditors
- Had to be more efficient in own work and in recommendations
- Audited organisations could save resources and improve efficiency
- CHU improved internal auditors – internal auditors improved organisations

**Small CHU can
achieve
significant
results**



FUTURE

- Further development of modules (more examples and case studies)
- Local government specific modules
- Sustainability

THANK YOU FOR YOUR
ATTENTION!

ANY COMMENTS, QUESTIONS?