STRENGTHENING INTERNAL AUDIT CAPACITIES IN THE HUNGARIAN PUBLIC SPHERE

Edit Németh

Dr. Balázs Dencső
European Union countries’ currency status

- **Euro area**: Countries using the euro as their currency.
- **Currency pegged to euro**: Countries whose currency is pegged to the euro.
- **Floating currency**: Countries with their own currency that is not pegged to the euro.
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 acceptation 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
• Project: Improving Public Internal Financial Control system, Audit Mechanisms and Skills

• The wider objective of the project is to increase **Sound Financial Management** (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.
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
„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
<table>
<thead>
<tr>
<th>Modul</th>
<th>Type</th>
<th>Number of courses</th>
<th>Number of applicants</th>
<th>Number of issued certification</th>
</tr>
</thead>
<tbody>
<tr>
<td>PIFC I. – Internal auditor</td>
<td>F2F</td>
<td>2</td>
<td>48</td>
<td>47</td>
</tr>
<tr>
<td></td>
<td>E- learning</td>
<td>8</td>
<td>162</td>
<td>140</td>
</tr>
<tr>
<td>PIFC I. – financial manager and head of budgetary units</td>
<td>F2F</td>
<td>20</td>
<td>632</td>
<td>609</td>
</tr>
<tr>
<td></td>
<td>E- learning</td>
<td>4</td>
<td>851</td>
<td>791</td>
</tr>
<tr>
<td>PIFC II. – Audit of public procurement</td>
<td>F2F</td>
<td>6</td>
<td>169</td>
<td>162</td>
</tr>
<tr>
<td></td>
<td>E- learning</td>
<td>3</td>
<td>158</td>
<td>153</td>
</tr>
<tr>
<td>PIFC II. – System audit</td>
<td>F2F</td>
<td>12</td>
<td>365</td>
<td>349</td>
</tr>
<tr>
<td></td>
<td>E- learning</td>
<td>3</td>
<td>273</td>
<td>269</td>
</tr>
<tr>
<td>PIFC II. – Value for money audit</td>
<td>F2F</td>
<td>10</td>
<td>254</td>
<td>248</td>
</tr>
<tr>
<td></td>
<td>E- learning</td>
<td>3</td>
<td>161</td>
<td>159</td>
</tr>
<tr>
<td>PIFC II. – Control of EU funds</td>
<td>F2F</td>
<td>8</td>
<td>209</td>
<td>204</td>
</tr>
<tr>
<td></td>
<td>E- learning</td>
<td>3</td>
<td>170</td>
<td>168</td>
</tr>
<tr>
<td><strong>Total:</strong></td>
<td></td>
<td><strong>82</strong></td>
<td><strong>3452</strong></td>
<td><strong>3299</strong></td>
</tr>
</tbody>
</table>
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?