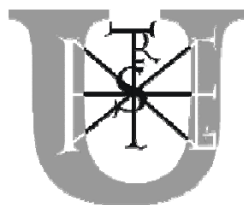


SZENT ISTVÁN UNIVERSITY

GÖDÖLLŐ



THESES OF PHD DISSERTATION

**LEGAL REGULATION OF PUBLIC FINANCIAL MANAGEMENT,
ECONOMY OF THE EXTERNAL AUDIT OF PUBLIC FUNDS**

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INTRODUCTION

The increasing participation of the state in the economic and social politics is the unequivocal historical trend of the 20th century. The tendency has become consummate in the welfare states of the post Second World War II era. Such role undertaken a by the state has been based on the continuous technological development and economic growth as a consequence of what the range and level of public tasks and services to be delivered has continuously grown. Apart from this expansion of the role of the state, naturally the contents have also changed, respectively it has grown. Following an evolvment lasting for several decades, from the second half of the nineteen seventies the welfare state reached a period burdened by crisis symptoms, the pace of economic growth has staggered, the bases of development were shaken; it became obvious that the performance of the economy produced recession and serious functional disorder appeared. This stagnating, occasionally even declining economic output has led to the recession of the public services.

The vision of the welfare state also appeared in Hungary as a goal set by the government, but the productivity of the domestic economy was less and less able to ensure the resources necessary for the state to act accordingly. With time this balance has increasingly been upseted, recession in an ever growing number manifested itself and this state has been further worsened by the appearance of the worldwide crisis at the end of 2008. Thus, in the past decade it became more and more urgent that reforms were required to restore balance, and activities aiming at developing and introducing reforms have started.

Topicality and Background of the Theme

On the level of the world economy, both in the real economy and in the financial system we can experience shrinking that is unparallel to any such phenomena in the past 80 years. Our country cannot shake off the effect of the process that goes hand in hand with significant loss of property, waves of bankruptcy and unemployment. However, the vulnerability of the Hungarian economy and its reasons should not be sought only beyond the borders of the country. As a consequence of the loose budgetary policy followed in the course of the past decades, public debt has grown well above the internationally

accepted level, i.e. close to 80 % of the GDP. The only reason this situation did not pose acute financing problems was that at the time the world economy was still ‘swimming’ in cheap money. However, the era of ample liquidity has quickly passed, the country was left to be alone with its high debt rate.

Recommendations for solution were born earlier to restore balance, but these were mostly seeking (political) popularity and not real economic decisions or rather management-technical issues that were playing a role.

Beyond the balance issues, nowadays questions related to transparency and accountability concerning the utilization of public funds, as well as the strengthening of the fight against corruption have come increasingly into the foreground. Transparency stands for the unequivocal definition of how should resources be utilized and in reality how they were utilized. Now – when the budgetary deficit is insupportably high – it would be necessary to change the root cause primarily in the interest of the establishment of the new balance.

First of all, it would be necessary to clarify what are the tasks that the state has to deliver, as well as identify what resources should be ensured for establishing and operating economic but efficient public finances and public administration. Hungary can keep up with the developed states only when its public administration and its public financial management become competitive in its organizational system, working methods, legal regulations and personnel too.

Objective of Research

The primary objective of my research was to analyze to what extend does the present regulatory system related to public financial management meet contemporary requirements, what changes are needed in the regulatory system both on micro (institutional) and macro (national economy) levels.

Consequently, my objective on the macro level was– on the one hand – to be a continuous participant and molder of the creation of a contemporary regulation of new nature. In the course of the process I could fix the principles that would promote the laying down of the foundations of such regulation. Due to my daily responsibilities and scope of authority I have gained rich experiences in the field of auditing public funds. On the other hand, I

wished to establish such a collection of theses that might serve as the foundation of the contemporary regulation of public financial management.

My additional objective was that – on the micro level – beyond the regulatory issues, I could promote the development of an information system required for the programme-based budget by utilizing the solutions I have developed and employed. In the course of my research I was leaning on the results that SAIs being members of the International Organization of Supreme Audit Institutions (INTOSAI) have been employing in the course of their audit work.

Hypotheses, Theses of Dissertation

When choosing the subject of my dissertation I started with the hypothesis that the development of the worsening recession in the economy of the country – the decreasing of the real sphere, the growing budget deficit and rate of unemployment – can be explained only partly by the effects of the external environment. Referring to external reasons is mostly a mean of disclaim and shift by the persons and organizations bearing responsibility for the management of the economy. It is my firm conviction that the reconsideration and modernization of the regulation related to public financial management, as well as putting institutional management of public funds on new bases are able to contribute to the creation of the consolidated economic situation of the country to a great extent. My research was aiming at discovering the ways and possibilities that would facilitate to find what internal means and possibilities might be useful for the elimination of negative external effects (developing on the level of world economy). For this purpose, it is necessary to review the theme from a system approach angle as a conclusion of which I wish to make recommendations for the direction and means that would contribute to the strengthening of the role of the state in the field of managing, regulating and controlling. In my dissertation I will subject the situation of the present regulatory and organizational system to criticism and look into the possibilities that – from the aspect of auditing – might contribute both on macro and micro levels to the development of a contemporary, new, transparent and disciplined system of public financial management, to the observation and the enforcement of the regulations, as well as to the modernization of the management system necessary to this.

In the course of my research I am going to approach my goals targeted at the renewal of the entire system of public financial management from two directions, i.e. on macro and micro levels. The two directions are serving the same purpose. On macro level, I will be dealing with issues related to the legal regulation of public financial management, while on micro level; in the chapter titled “Economy of the External Audit of Public Funds” I am going to introduce a solution that makes the realization of the desired target possible from institutional aspect.

To support my hypothesis I started from the following four theses:

Thesis 1: In the functioning of the economy of our country serious troubles and problems have emerged, due to external and internal reasons. As a consequence of the decline, both the fiscal and monetary credibility of the country has suffered on the international and domestic scene alike. In order to restore credibility creating a new law that serves public financial management is necessary.

Thesis 2: The need to regulate public financial management by a law of new approach has emerged more and more. Prior to the creation of a new law or laws it is necessary to review the range of public tasks, their respective role and costs in the national economy. The procedure of creating the legal regulation can be completed only in the possession of such knowledge, and before the legislative work the necessary impact analysis should be undertaken.

Thesis 3: Parallel to the legislative work, in order to monitor the activity to be realized by the regulations it is imperative to establish a new institutional and information system that is contemporary and serves the monitoring of the planning, operation and implementation of the management process, as well as the controlling function.

Thesis 4: Through the definition, planning and monitoring of the institutional capacities the realization of a programme-based budget – on micro level – promotes order and the efficient and effective utilization of resources.

1. TOPIC AND METHODS

In the course of my research I was trying to approach the same issue from two directions, i.e. how would it be possible to reach results indicating beyond the economic crisis and decrease the risks existing in the field of budgeting by the modernization of the legal environment, the tightening of the budgetary discipline and by the introduction of more efficient methods. I analyzed the two approaching courses in two separate chapters and tried to bring the conclusions from these approaches on a common denominator in chapter 'Research Results'.

In line with the objectives of my dissertation, in the course of my research work I wanted to find explanations to the following questions. On the one hand, what are the organizational and functional disorders, possible anomalies that might damage the efficiency of functioning, the judgment on the credibility of the country, its competitiveness from regulatory aspect and by considering what aspects could we make improvements in this field. On the other hand, what would be the advantages of the modernization of the planning, financial management and reporting practices related to budgeting from institutional aspect?

In the course of my research, based on the responses to my questions I determined those points of choosing professional values, the enforcement of which would, in general, be necessary. This requirement could also be formulated as principles of the operation of the system of public financial management and these should also be reflected in the solutions of the concrete regulation.

Accordingly, the research methods should have primarily covered two important fields. Thus the analysis, examination and modernization of the legal regulation related to public financial management, as well as the closely related economy of the external audit of public funds, the modeling of the application of the programme-based budget and its introduction via a concrete, institutional example.

1.1. Legal Regulation of Public Funds

I started the analysis of the first field of my research by collecting and analyzing data on the presently valid legal environment. I also studied former and present experiences

gained in connection with the application of the regulations and the best domestic and international practices. I reviewed the lessons of the theoretical and practical technical literature by systemizing my own research and experiences gained in the course of my professional activities throughout several decades. In the course of this process I have been looking for ways and means that would make it possible, both on macro (national economy) and micro (institutional) levels the economic and efficient utilization of public funds, as well as the monitoring and auditing of their utilization.

I examined the issue to what extent does the legal environment related to the utilization of public funds and the respective audit activity meet contemporary requirements, and whether it is reasonable to create a new legal environment that would meet the present requirements. Naturally, I also examined the requirements of how a new legal environment should fit the new, contemporary requirements. Thus, I have been looking for ways and possibilities along what a new legal environment could be created.

Together with my colleagues I aspired to collect and determine principles, the preservation of which would be necessary by all means for the creation of a new regulation and taking into consideration of which would make it possible to establish a set of conditions, the collection of theses that might serve as a basis for the new legal environment.

I started the examination of the issue by the critical analysis of the current regulation. As a first step I collected principles that should be considered – in my opinion – in the course of managing public funds and based on which a new regulation could be created, as well as I explained in details the contents laying behind the individual principles.

However, I could not get satisfied with merely raising the issue of the necessity of the changes; I also found it important to seek the ways, directions alongside which the modernization should be started.

Apart from determining the principles I dedicated a separate chapter to the issues and aspects related to the audit of public funds.

I presented the most important breaking points and methods of the recommended new regulation by summarizing them in theses. Concerning the definition of the most important messages of the theses, I raised fifteen theses alongside which the tasks related

to modernization should be started. These theses are deliberately not about the renewal of the act on public finance, rather about the regulation of public financial management.

1.2. Economy of the External Audit of Public Funds

In the second part of my thesis I analyzed the factors that serve as a basis for the external audit and – concentrating on strategic relations – in the course of the process I analyzed the strategic principles related to the audits, as well as the strategic directions that determine the course of the audit activity and of its development.

Via the definition of the audit capacities and their planning I analyzed the methods, means and possibilities that – in the practice – make it possible to measure and calculate the capacities and make it possible to use the capacities more efficiently.

By this method I modeled the possibility of the efficient utilization of the capacities, the creation of the programme-based institutional budget and the actual possibilities for its application, the methodology of the application via the activities of the State Audit Office of Hungary. Creating the model would make it possible to establish similar systems in other fields of public administration as an analogy, thus expanding the fields of the application.

In the course of the establishment of an efficient auditing system I analyzed issues related to the harmonization of the activities of the individual audit organizations, as well as the possibilities of cooperation between organizations carrying out financial audits and the advantages of such cooperation.

By the analysis of the revenues and expenditures of the external audit I determined the method of cost-accounting and via this relation I explained the concept of the use and utility of the audit.

2. RESEARCH RESULTS

As a result of my research undertaken with the aim of completing my PhD thesis, first I evaluated the legal regulation related to public financial management, then outlined the structure of a new regulatory environment, while taking into consideration the requirements that would be expected from the users, managers of public funds.

2. 1. Results related to the Legal Regulation of Public Financial Management

Based on the analysis of my hypothesis formulated at the beginning of the thesis, I established that the more and more oppressive economic and social disorder that took place in the economy of the nation **can be only partially explained by the consequences of the worldwide economic crisis**. The internal causes have only escalated the size and extent of the crisis but, by using appropriate means, there are many a possibilities to mitigate it.

My assumption, that **in order to improve the situation** – apart from the transformation of the structure of the economy of the country – **we have possibilities both on macro and micro** levels, especially in the field of the utilization of public funds, including issues such as the definition of tasks, the planning, the regulation, the financial management, the audit and the recording proved to be right.

Based on the analysis of the legal regulation in force related to public financial management I found that by today it has become anachronistic **both in respect of its substance and of its form** and, due to the innumerable amendments made over the years, it has become confused and difficult to employ for those implementing the law. In professional circles consensus can be detected regarding the necessity of a new law. However, there is no total agreement as regards to where and with what substance should the new regulation be born. The new name refers to the fact that the regulation related to public financial management would be narrower in respect of its subject, while would be wider in its general aspect.

As there are a number of defficiencies and problems in the functioning of the system and the present one has been already outdated in several fields, it would be impossible to produce real results by patching it up or resort to half measures; in other words, **the**

reforming of the system cannot be postponed anymore. It could be ascertained that the **Hungarian Constitution itself has been handling issues related to the utilization of public funds and public property quite generously;** additionally the legal regulation concerning the public sector does not meet contemporary requirements and norms of our time either; thus **the appropriate accountability of public funds and the transparency of their financial management cannot be ensured.**

In the field of the regulation of the economy – and this is especially valid in case of public financial management – there are no eternal solutions. The new regulation should solve two central issues. On the one hand, **the right and responsibility of elected political bodies should be reinstated, while on the other hand the institutional guarantees of the financial sustainability of the budget should also be ensured.** No matter if we deny it or we don not, the two requirements might be in conflict at certain points. Nevertheless, the well tuned system of built in controls, brakes, or if you like, counterbalances, and the consistent enforcement of transparency are able to establish a regulatory system that meets the above requirements.

The budget planning that covers a longer period and looks into perspective too, assumes and requires the functioning of a macroeconomic financial planning system that adjusts itself to the nature of market economy, but it is structured more comprehensively. Unequivocal task definition, transparent planning, a budget approved on the basis of the purpose and output requirements, as well as the ethical consistency make performances more measurable. Thus, possibilities of accounting, analysis, evaluation and correction – and not in the least possibilities of control (might) also improve. **The functioning of the state thus would become more** transparent to the public and which is – at the same time – the condition of (restoring) credibility too. Recapturing lost credibility requires much greater efforts than keeping, or - should the occasion arise - increasing credibility.

I stated that the **renewal** of the regulation related to public financial management **basically serves two goals.** Its direct goal is to establish such a system of regulations, such an institutional system, and finding such technical solutions, that would make the management of public funds more transparent and efficient, as well as more predictable, while also would consider the emerging risks on the levels of the national economy, the local governments and institutions. However, **the final goal** would be to **considerably**

improve the external and internal conditions of competitiveness and sustainable development via the better functioning of the public financial management system, as well as through the financial balance and the confidence placed in it.

The regulation concerning the planning, financial management and accounting process and auditing of public finances deserves re-thinking as well. From among the nations ahead of us several have proved that **output requirements** concerning the whole of the public sector, as well as its branches and individual actors **result prosperity surplus**. Enforcing the principle of performance orientation is especially important already in the course of the planning itself as this phase of the financial management is decisively determining the its processes. When planning estimates, the purpose of the recommended expenditures together with the way of reaching the given purpose, as well as the justification of the recommended resources and of the amount of the expenditure should be presented. **Performance indicators** should be widely used for the purpose of identifying purposes and for the reckoning.

In the interest of increasing performance orientation, it would be desirable if **the substantial proportion of the expenditures were planned on the basis of programmes** and its proportion – thanks to the improvement of the preparedness – would annually increase. In case of a programme-based budget it is also a matter of decision what organization with what legal status should deliver the task as out-of-budget organizations could also be suitable to successfully execute programmes financed by public funds. Table 1 presents the structure of the programme-based budget that I would recommend.

Consequently the domestic budget planning practice can be renewed comprehensively and in details too. The present ground-based planning method is not suitable to enforce performance requirements and lay down the foundations for the necessary structural changes. The present practice of forming mandatory reserves is transmitting one-sided fiscal aspects to the actors of the sector who are formally complying with the restrictions by appropriate techniques but are unable to substantially renew their financial management.

Placing the budgeting on performance bases requires new approaches also when reporting on the execution. Not only giving an account but the presentation of the trends concerning the performances are also important functions of reporting. In case of the units falling

under the practice of the programme-based budgeting reports adjusting to the life cycle of the programme (investment, government action), i.e. reports presenting the results are just as necessary as the periodical reports and reporting on the final account.

Table 1

Structure of a Programme-based Budget

	Main Programme	Programme	Sub-programme
Character	Governmental function	Voting unit	Measure
Decision maker	National Assembly	National Assembly /or the body of representatives of the local government	Government /or body of representatives of the local government
Responsible	Line minister or his/her delegate	State secretary or his/her delegate	Head of institution or his/her delegate
Appr. number	30-40	200-300	1500-2000
Example 1	Education	Higher education	Determining enrollment limit by educational fields
Example 2	Environment protection	Wastewater cleaning	Building wastewater cleaning facilities
			Raising of penalties
Example 3	Education	Public education	Financing state contribution to head quota according to work places of teachers
			Defining the role to be played by local governments

Deficiencies in the field of information management deserve special mentioning in respect of the present regulatory system. From among them the greatest deficiency may be the fact that accounting and statistical information originating in the public sector, as well as the IT information are not regulated in a system-oriented approach. In the given situation information management should just serve the accounting of public funds, the obligation of giving an account of the financial situation of units managing public funds and the laying of the foundations of economic decisions related the utilization of public funds.

Similarly to the wording of Act C of 2000 on Accounting it would be necessary that the regulatory concept of the future, the new law related to public financial management should contain those professional aspects of choosing values, the enforcement of which would be generally desirable. This requirement could also be summed up like the basic principles of operation of the system of public financial management and these principles should be reflected also in the solutions offered by the concrete regulation. According to my findings **consideration of the following would be necessary:**

1. Principle of popular representation.
2. Principle of limited authorization.
3. Principle of transparency.
4. Principle of publicity.
5. Principle of auditability.
6. Principle of financial fairness.
7. Principle of performance orientation.
8. Principle of foresight.
9. Principle of sustainability.
10. Principle of completeness.
11. Principle of adequate elaborateness.

In my dissertation I explained in details the wording of the individual principles that I consider right.

The creation of the new regulation requires the presentation of a long line of partial regulations in legal formulas. This is something that I could not undertake in the frame of my thesis. However, with the intention of assisting jurisdiction **I introduced the most**

important breaking-out points and methods compiled in fifteen theses. The ‘Theses’ are deliberately not about the renewal of the act on public finances but **about the regulation of public financial management.** Namely the contemporary approach of the state and of the public sector requires the expansion of the effect of the regulation related to public financial management on organizations managing public funds outside the system of public finances too. The worldwide tendency according to which organizations outside the system of public finances are taking an increasing role in delivering public tasks has increasingly succeeded also in Hungary. In turn, the danger of the draining of public funds is the biggest right at the meeting points of the public and private sectors.

According to my findings **the ‘Theses’ have three, important messages.** The most important message may be summarized like the regulations (the regulatory system) of managing public funds should be implemented **on solid, fundamental basis,** in a way that would ensure the **enforcement of these principles in the overall system of the regulation.** The ‘Theses’ are fixing the most important principles and outline those regulatory trends alongside which they can be enforced. It is an important aspect to have professional, political and social consensus regarding the principles.

The second, emphatic consideration of the ‘Theses’ **is the importance of the consolidation of budgetary discipline.** Naturally, this cannot be enforced by spell either. The introduction of such regulations is necessary that would prevent from the outset the exceeding the limits set by the budget (regulation-based budget). Apart from this, external and internal auditing should be more harmonized.

Modernization has not left public financial management untouched either and this is where the third, emphatic idea of the ‘Theses’ originated from. Thus **the development of IT requires that the main rules of the information system related to public financial management should be formulated on the level of laws too.** Our accession to the European Union and membership in international organizations make it necessary that the standards formulated by these organizations in the field of the public sector should also be enforced in domestic regulation as well. The technology of the budget planning, management and reporting has undergone a development process and the Hungarian practice should ensure the application of these technologies.

The regulation related to public financial management and its whole system **cannot be established simply by creating a single law**. The ‘Theses’ refer to the renewal of the legal regulatory system and **mean the system-like re-regulation of the management of public funds**. However, it is an indispensable requirement that the regulation of the central and local level financial relations of the public finances should be more solid and transparent than it is now. The modernization reform would be comprehensive only if in the modernization course **the Constitution would also be widened** by a chapter describing the framework of the regulation related to public financial management, but eventually the modernization could be done without the amendment of the Constitution too.

In connection with the creation of the new regulation we should count with the individual budget-political rules, institutional and other guarantees, as well as with the possibilities of legal implementation. My thesis contains the detailed explanation of these issues as well.

I did examine and analyze the starting steps that the National Assembly and the fiscal government has done, but to my regret I found that **certain partial measures were been taken** – mostly as a sort of fire-fighting – in the fields of the system of public finances, public task delivery and legal regulation related public financial management, and although there is consensus regarding the necessity of comprehensive amendment, **in real terms the setting of the legal foundations of public financial management in a systematic principle and its adequate legal regulations has not been realized yet**. Under such conditions we are waiting in vain to have the conditions and the framework based on which the conditions required for the establishment of lasting balance could be met, were ensured.

Thanks to the analysis of the situation and the criticism of the present regulation it became obvious for me that in order to ensure the legal conditions of the functioning of the public sector the creation of the new regulation related to public financial management that would be new from the aspect of the approach, as well as from that of the practice **should be started without delay even if the present political and economic situation are not favourable to promote such a step**.

2. 2. Economy of the External Audit of Public Funds

In the second part of my thesis I examined the factors serving as the basis for external audit on a so-far unusual field, i.e. on the level of a budgetary institution. In the course of the examination I analyzed the strategic principles related to the audits by focusing on strategic relations, as well as the implementation of the audit activities and the strategic directions that defined the development of the above.

Via the determination and planning of audit capacities I analyzed those methods, means and possibilities that – in the practice – make the **measuring and calculation of the capacities** possible. I looked for and outlined the possibilities that promote the efficient utilization of the available capacities. Via the practices of the State Audit Office of Hungary I modeled the possibility of the efficient utilization of the capacities, the development of programme-based institutional budget and the possibilities of the concrete utilization of such budget, the methodology of the concrete application and the budgetary relations. Via the external audit activities I created **a model that would make it possible to create similar systems in the other fields of public administration** as an analogy, thus expanding the fields and possibilities of application.

I have also been dealing with the necessity and possibilities of an IT background necessary for measuring capacities, as well as the planned utilization and calculation thereof.

In the course of establishing an efficient audit system I have examined issues related to the harmonization of the activities of individual auditing organizations and the possibilities of cooperation between organizations carrying out financial audit, as well as the advantages of such cooperation.

Via the examination of the revenues and expenditures of external audits **I interpreted the cost price and the method of cost-accounting**. Finally, I established an interpretation as regards what should be understood under the concept of the use and utility of external audit thus establishing possibilities related to the introduction of output requirements and practice of programme-based budget.

3. NEW AND NEW-LIKE RESEARCH RESULTS

I am summarizing the new and new-like elements of the scientific results of my research hereunder:

- ▶ **I laid down** that the establishment of the short and long term balance of Hungary and maintaining such balance, the decreasing of public debt to an appropriate level would be possible to mitigate – independent from the causes of the crisis – both on macro and micro levels. In the course of such mitigation:
 - The fact that short term interests and measures of the country keep regularly preceding the long term interests, as well as this practice has greatly increased the insecurity of the actors of the economy and has endangered the convergence attempts of the country.
 - It has not been identified what are the tasks that the state is obliged to deliver. Thus, the state cannot create adequate conformity between the tasks and the resources required for their delivery.
 - The harmonization of the public tasks and the resources required for delivering these tasks has not been adequate and this has only been worsened by the usually negative effects of political cycles and of the ‘political rotation system’.
 - The transformation of the public sector as a whole and its reforming, the transformation of the organizational system in the frame of the reforms, the modernization of the institutional financial management system and of its regulations, the ranking of the tasks, the introduction of performance assessment, the employment of the contemporary methods of output-financing (task financing) cannot be postponed any further.
- ▶ **I also laid down** that although the legal regulation of the public sector is in line with the Acquis Communautaire of the European Union, in reality it does not meet the requirements of contemporary public sector management and meets only formally the expected European norms.
 - The Hungarian Constitution regulates rather liberally the issues related to the utilization of public funds and public property.

- The present regulation makes it possible to pass decisions by circumventing the National Assembly thus decreasing the view of the National Assembly in such matters.
 - The regulation is not in line with international stipulations, does not contain references to international standards (GFS, IFAC, etc), the rules are usually under-regulated while in other cases over-regulated.
 - The conformity of the statistical and accounting information is not adequately ensured, the system approach is missing in this field.
- ▶ By criticizing the legal regulation I have **identified** what conditions and what criteria the new law related to public financial management should observe, as well as I have outlined the issues that require regulatory solutions.
- I did lay down principles, aspects of choosing values, the validation of what would be necessary and that should be reflected in the solutions offered by the concrete regulations. I identified in details the contents of these principles that I considered important.
 - I outlined the aspects that should be considered by the new regulation related to the audit of public funds.
 - I summed up the most important breaking-out points and methods to be applied concerning the new regulation that I recommended in fifteen theses, explaining in detail the contents of each thesis.
- ▶ From novelty aspect one of the most important results of my research was the new approach that requires new approach related to placing the budgeting on performance basis, as well as from the execution point of view. I examined the possibilities of introducing program-based budget via the practical implementation of performance orientation, as well as the advantages originating from the implementation.
- ▶ I identified those methods that – under different conditions – make the creation and introduction of the new regulation possible, even at the price of amending the Constitution – by changing the regulation concerning two-third majority legal regulations – even in case of simple majority support.

- My research on the economy of the external audit of public funds can be termed as a complete novelty as in that chapter I examined how would it be possible to explain economic efficiency on the level of budgetary institutions.
- How would it be possible to create programme-based budget on institutional level and what conditions are needed for this. At the same time, this would also serve as a model for similar ways of thinking and solutions in other fields.
 - I developed the methodology of identifying audit related capacities, the system of measuring and monitoring capacities, its ex-ante and ex-post calculating.
 - I summarized the possibilities that might increase audit capacities and would promote the better harmonization of those capacities.
 - I established the method of the cost-accounting of external audits and explained concepts related to the revenues and expenditures of the audit.
 - Finally, I explained the contents of concepts related to the use and utility of the audits.

4. CONCLUSIONS AND RECOMMENDATIONS

Below please, find the conclusions of general ruling principle character and recommendations as the closing of my research and as its result:

As our country got in a serious situation as a result of the worldwide crisis both on macro and micro levels, it is imperative to make all the decisions, measures and reforms that would enable the restoration of the consolidated situation of the country in the shortest possible time. With my thesis I wished to contribute to the improvement of the situation by making an attempt to reconsider the regulation related to public financial management from a system approach and by making recommendations for the modernization of the system.

In my thesis I outlined several possibilities concerning the re-regulation of public financial management. In my conclusions and recommendations I made proposals for solutions which I consider optimal instead of possibilities that would settle for less. As a starting point I would say that instead of partial solutions a comprehensive, system-approach like new regulation is needed. In the course of creating the new regulation and in all its phases the basic principles and theses of my dissertation should be taken into consideration.

The practice that in the course of political cycles, short-term interest could come before long-term ones has to be stopped. Additionally, the possibility of the so-called election-year budget should be excluded. (In the course of the discussion of the 2010 budget we could often hear the statement that it does not contain election elements. However, independent from this in reality the budget is not supported by tasks, basically restrictive elements are playing in it a dominating role, either this is recognized by the decision-makers or not. Although the principle of a smaller, respectively cheaper state sounds very well but the budget has not been dealing with the issue of transforming the structure.

First of all, it would be necessary that they would fix in the Hungarian Constitution the principle of equal and proportionate taxation, as well as those major rules of exercising budgetary rights that might establish the right of the citizens to financial security.

Starting from the Constitution and as a function of the strength of the country the range and contents of public tasks should be defined, as well as the conformity between the tasks and the resources required for the delivery of those tasks.

Starting from the outlined principles and theses a new, modern legal regulating environment should be established. Prior to the introduction of these new regulations, with the help of impact analysis, the ability of functioning of the new regulatory environment should be examined, to be followed by additional refinement of this regulatory environment.

In line with the new regulation the institutional, organizational and personnel framework necessary for the functioning of the system should be elaborated, issues related to auditing and IT also included.

The much better harmonization of the fiscal and monetary politics is necessary in order to ensure that the nominal and real convergence – sooner or later – progressed together, parallel. Audits can assist the financial processes if there is really some sort of conformity and interrelation between them. In this respect a more modern and more reliable control of the financial intermediary system, of the banking, the insurance and the stock exchange word is necessary – as the worldwide financial and economic crisis has emphatically underlined this necessity.

Instead of the present ground- based budget planning or even of the drains based on the ‘lawnmower principle’, the system based on tasks, the so-called ‘programme-based budget’ should be built and the establishment of such a system requires such an information system and its obligatory application that would make it possible to make short, medium and long-term planning, implementation, reporting and audit. The information system should be able to give data for the institutional and activity-level analyses at the same time and thus we should reach the same results from two different approaches. Simultaneously this would also be a useful mean of auditing.

The system of cost-account related to the tasks to be delivered by budgetary organizations should be elaborated, and via the planning and delivery of the tasks the individual processes should be followed with attention by defining what is the price of what. The

fact that this can be realistically implemented was justified by the elaboration of the example related to the tasks of the State Audit Office of Hungary.

Finally, it is necessary to have the multifaceted and regular audit of all the processes of the budget that should be able to provide the opportunity of correcting in the right direction of the processes by immediate intervention, in the course of detecting undesirable phenomena.

SUMMARY

The worldwide economic crisis has shattered the slowly evolving consolidation process of public finances, and has revealed again that the economic and budget policies followed in the course of the past two decades have not been coherent enough, thus could not stop the overspending of the budget, while the structural weaknesses resulting in efficiency and competitive problems had to be gradually eliminated to promote the unfolding that would be unimaginable without the reform scale modernization of public finances, including the big community supply systems. Under these circumstances it is an especially valid statement that reaching sustainable position of public finances and its establishment has been considerably aggravated in the course of the past years. Thus, radical change would be necessary in matters of public financial management instead of the annual mending. Starting from the magnitude and diversity of these tasks, the solutions, the transformation can only be gradual, extensive and multi-layered.

It is obvious that today our nation is facing new adaptability tasks. The former models focusing on target statuses and restrictions have to give place to dynamic models that are able to adapt to changes. In the course of such transformation we have to consider some specific factors of the economic and social development, like cooperation, new partnerships, the output of the state organization system, the consistency of the jurisdiction, the security of public task delivery and of the budget. These factors however concern social issues, relations as well and in practice cannot be summarized by performance indicators or, if they can, it could be done only with considerable difficulties. However, concerning their overall impact they might represent very tangible forwarding forces supporting progress, or just the opposite, i.e. reactionary and curbing effect.

Under all circumstances public funds are which that serve as the resource for public task delivery. By public financial management I mean the regulation of the equal and proportionate taxation, the definition of the sub-systems of the public finances, the elaboration, the approval, the execution and of the audit of the budget of the sub-systems, furthermore the regulation of the management and the audit of the management of public property. In terms of 'mathematics' the central budget is in order, however, its regulation and management leave a lot to be desired. This is why it represents difficulties that the Constitution in force contains only sporadic stipulations concerning the above and even

those stipulations are only summary definitions. Thus, the National Assembly chapter regulates the obligation of the adoption of the central budget and of the final account, together with the determination of the social-economic plan of the country. The chapter dealing with the basic rights and obligations regulates the obligation of the equal and proportionate taxation, while the general rules state that the property of the state constitutes the national assets and stipulates how state owned companies and economic organizations should be managed. The definition of the major substantive elements of the central budget and of the final account, the regulation concerning the preparation and adoption is missing, while the issue of the tasks undertaken by the state are 'solved' by stating that other laws will cover them.

Thus, it would be justified if the Constitution covers public financial management under a separate chapter. Both international and domestic constitutional relations are supporting this requirement. The constitutions of the EU member states – practically without exception – include such, or similar chapters with detailed regulations. Starting from this recognition, the State Audit Office of Hungary undertook to prepare the bases of the concept of a new law related to public financial management, by involving a wide range of experts in this field, to establish a starting point for the future work. However, with passing time the initial encouraging steps and results seem to have come to a halt.

The regulation related to public financial management to be included in the Constitution has important, substantive reasons as well. Citizens have the right to enjoy financial stability. Thus a constitutional level, stable regulation is necessary to ensure the protection of the rights and interests of the next generations, by preventing excessive overspending by the state. The most important principles of budgeting, like transparency, accountability, adequate elaboratedness and the requirement of completeness should also be visualized on constitutional level. It should be declared that the resources depicted by the Constitution and additional laws should be ensured. In relation to the basic rights and the obligations, that can be envisaged today (contents, extent, possibilities of meeting the demand), as well as the planning and the guaranteeing of the respective resources, a system of knowledge and conditions of decisive importance should also be elaborated.

In case of establishing the above outlined conditions, the Constitution would record that the resources of the obligations and tasks listed in the Constitution and the laws should be

ensured by the central budget; the implementation of such a regulation might be assisted by additional, new, constitutional rules. On the other hand, the regulation promoted to constitutional rank will enjoy constitutional protection that has a well-established institutional system.

If the tasks determined by the law are in fact delivered, the basic condition of being able to control would be switching from institutional financing to task based financing, i.e. to the so-called programme-based budgeting. This should be realized by the new law related to public financial management, based on what it would be possible to control if the available resources were de facto used for what they had been intended for.

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Since 2002 – Chair of the Committee on Methodology of the State Audit Office of Hungary