



PUBLIC FUNDS AND THE LEGAL FRAMEWORK OF FISCAL OVERSIGHT IN HUNGARY

HOTTÓ, ISTVÁN¹

ABSTRACT

The study explores the legal and institutional mechanisms governing the control of public funds in Hungary. It outlines the constitutional foundations and statutory definitions of public tasks and budgetary institutions, emphasizing their role in ensuring lawful and transparent financial management. The analysis focuses on the multi-level system of fiscal oversight, including the external (State Audit Office), governmental (Government Control Office, Hungarian State Treasury), and internal control mechanisms operating within budgetary bodies. Through a doctrinal and normative approach, the paper highlights how these mechanisms collectively guarantee the effective and accountable use of national resources. The findings demonstrate that Hungary's fiscal control system provides a coherent legal framework that reinforces transparency, effectiveness, and public trust in the management of state finances.

KEYWORDS Public funds, fiscal oversight, State Audit Office, internal control, legal framework, accountability

1. Introduction

The management of public funds plays a fundamental role in ensuring the stability and transparency of state operations. Through the proper use of these resources, the state fulfils its constitutional responsibilities and maintains public trust in governance.

Public funds include the revenues, expenditures, and claims of the state (*Alaptörvény, art. 38*). The chapter titled “Public Funds” in the Fundamental Law comprises nine sections, reflecting the significant importance of public finances. The heightened attention to this field is further demonstrated by the fact that several related areas must be regulated by cardinal acts. These include the organizational and operational regulation of the State Audit Office, the central

¹ PhD Student at University of Pécs, Faculty of Law, Department of Criminology and Penal Enforcement, Pécs, Hungary.

bank, and the Fiscal Council, as well as the requirements for the responsible management of national assets.

The Fundamental Law links the concept of public funds to the budget, to subsidies or payments provided from the budget, and stipulates that the use of such subsidies must be transparent. Public funds are required for the performance of public tasks, which are regulated, implemented, and supervised within the framework of public finances.

In addition to national constitutional and statutory regulations, fiscal oversight in Hungary is also influenced by the European Union's framework for financial governance. The Stability and Growth Pact, the European Semester, and the EU Financial Regulation all emphasize fiscal discipline, transparency, and accountability in the management of public funds. These European principles have shaped domestic public finance reforms, promoting harmonization with EU standards. Therefore, Hungary's fiscal control mechanisms operate within a dual system of national and European legal expectations.

“The system of public finances operates according to uniform organizational, planning, management, control, financing, data provision, and reporting rules” (Áht., § 7).

If the management of an institution involves public funds, it is required to account for their use. In this study, I present the control function among the multiple responsibilities of public finances, after clarifying the concepts of public tasks and budgetary institutions related to the topic.

2. The Concept of Public Tasks and the Main Characteristics of Budgetary Institutions

The definition of a public task is provided by Act CXCV of 2011 on Public Finances (Áht.):

“Section 3/A (1) A public task is a state or municipal duty defined by law.

(2) Public tasks are performed through the establishment and operation of budgetary institutions, or by providing, in whole or in part, the financial resources necessary for their performance by the means defined in this Act. Organizations outside the system of public finances may also participate in the performance of public tasks, under conditions defined by law.” (Act CXCV of 2011 on Public Finances, Section 3/A)

According to Section 7 (1) of Áht.:

“A budgetary institution is a legal entity established by law or by its founding document for the performance of a public task defined therein.

(2) The activities of a budgetary institution may be

(a) core activities, defined as professional duties in the act or founding document establishing the institution, as well as other non-profit activities supporting the performance of these duties;

(b) business activities, which are profit-oriented productive, service, or sales activities carried out from external resources and not performed as mandatory functions” (Áht., § 7, para.1).

From the statutory definition, it follows that the system of public finances serves as the framework through which the state and local governments perform and finance their public tasks. It is essential that public tasks can be established only by law. The Áht. also specifies that budgetary institutions have the primary role in performing public tasks, while organizations outside the system of public finances may participate only under specific legal conditions.

Considering this, it is important to identify the main characteristics of budgetary institutions. According to the Áht., the principal features of a budgetary institution are as follows:

- they are established by law or by a founding document;
- their establishment (including) registration, termination, or transformation is governed by specific legal provisions;
- they perform public tasks defined by law;
- their management and supervision are legally regulated;
- they operate with funds originating from the public budget in accordance with public finance regulations;
- they possess legal personality (Pfeffer, 2016).

The financial management of budgetary institutions is based on their budgets, which determine the material conditions necessary for their operation. During budget implementation, compliance with the general rules must be ensured, while also respecting requirements on financial transparency, public procurement obligations, and the rules established for financial control. The supervision of budgetary institutions is therefore a fundamental issue of public finance law, covered by the multi-level system of control established by the Act on Public Finances (Pfeffer, 2016).

Clearly defining public tasks and budgetary institutions is essential for ensuring fiscal accountability and transparency. By clarifying the legal status, responsibilities, and control mechanisms of these entities, the legislator establishes the foundation for lawful and efficient management of public funds.

This conceptual clarity also serves as a safeguard against misuse of resources and strengthens the overall credibility of fiscal governance.

3. Fiscal Oversight within Public Finances

Without control mechanisms, state systems cannot operate effectively. Social institutions should not be regarded merely as factors that restrict individual freedom of decision or hinder economic development. On the contrary, when properly applied, they serve as instruments for promoting social welfare. This is particularly true in the case of fiscal oversight, which ensures that public funds are utilized lawfully, efficiently, effectively, transparently, and in accordance with the objectives set by the community (Bihari, 2007).

Fiscal oversight, however, is not limited to the verification of legal compliance. It also embodies a democratic function by ensuring that the exercise of public power remains accountable to citizens. Transparent auditing and evaluation processes strengthen public confidence and help prevent misuse of public funds. Thus, fiscal control serves both as a legal safeguard and as a key element of democratic governance.

The control of public finances is based on a multi-level system that includes external (parliamentary) oversight – vested in the State Audit Office – governmental-level control, internal audit, and the operation of the internal control system. The purpose of fiscal oversight is to ensure the lawful, efficient, effective, and transparent use of public funds and public assets, thereby contributing to the successful performance of state and municipal functions (Pfeffer, 2016).

The purpose of fiscal oversight is defined as follows: *“The aim of public finance controls is to ensure the lawful, economical, efficient, and effective management of public funds and national assets, as well as the proper fulfilment of reporting and data provision obligations.”* (Áht., § 61, para. 1)

Cooperation and information flow between the different levels of fiscal oversight are essential for maintaining financial discipline. The integration of audit findings and policy feedback supports a more transparent and accountable system of governance, reducing the risks of misuse of public funds and corruption. Practical experience supports this conclusion: Csák & Czebe (2025a) demonstrate that large-scale criminal proceedings related to budget fraud face significant delays due to structural complexity and procedural overload, highlighting the need for continuous development of preventive and supervisory tools. In another study, Csák & Czebe (2025b) examine the relationship between integrity testing and the right to a fair trial, emphasising

that control mechanisms strengthen public trust only if applied within proper legal safeguards and with respect for fundamental rights.

Thus, the multi-level control framework not only ensures compliance, but also reinforces public trust and supports responsible and transparent management of public resources.

3.1. External (Legislative) Oversight

The external (legislative) control of public finances is primarily carried out by the State Audit Office. However, it is important to note that since 2015, the Áht. has also granted the Hungarian State Treasury the right to perform external audits within a defined scope, without hindering the supervisory activities of the State Audit Office. Therefore, the Hungarian State Treasury can also be mentioned as an institution performing external oversight (Pfeffer, 2016).

The external control of public finances is implemented when the auditing body or person is independent of the entity being audited, that is, when it performs its activity as an external actor. The State Audit Office represents one of the most significant institutions of such independence, as it is entirely separate from the government responsible for executing the central budget. It performs its duties exclusively under the authority of the National Assembly and is accountable solely to it.

Pursuant to the Fundamental Law and Act LXVI of 2011 on the State Audit Office of Hungary (ÁSZtv.), the National Assembly ensures the independence of the State Audit Office in the following areas:

- Organizational independence: It operates independently of all other institutions.
- Legal independence: Its findings cannot be challenged before any other authority.
- Personal independence: Conflict-of-interest rules guarantee impartiality.
- Financial independence: The institution's financial autonomy is ensured.

The President of the State Audit Office reports annually to the National Assembly. The annual report provides detailed information on the previous year's audit activities, operations, and financial management of the State Audit Office, as well as on the measures taken based on the audit findings (Lentner, 2024).

The structure of the State Audit Office consists of a president, vice president, senior officials, auditors (with higher education), civil servants with at least secondary education, administrative staff, and employees under the Labour Code. The president is elected by the National Assembly for a term of twelve

years with the support of two-thirds of the Members of Parliament, and may be re-elected (Rózsás, 2015).

3.2. Governmental-Level Oversight

“Governmental oversight is an objective, fact-finding, evaluative, and advisory activity that primarily examines the use of public funds, the management and preservation of national assets, and the effective, economical, and efficient performance of public tasks.” (Government Decree No. 355/2011, § 5)

The scope of this oversight includes the audit activities carried out by the Hungarian State Treasury, the governmental control body, and the authority responsible for auditing European Union funds (Nyikos & Szabó, 2018).

3.2.1. The Government Control Office

The Government Control Office (KEHI) is the supervisory body of the Government, whose audit authority extends to the following areas:

- monitoring the implementation of governmental decisions;
- conducting governmental audits of the central budget, the separate state funds, the financial funds of social insurance, and the central budgetary institutions;
- auditing the use of budgetary subsidies, other supports from the central subsystem of public finances, and state assets provided free of charge to business organizations, public foundations, public bodies, foundations, regional development councils, and associations;
- examining other organizations and financial processes defined by the Act on Public Finances.

The audit powers of KEHI do not extend to institutions classified under budgetary chapters outside the control of the Government, nor to the activities of the Hungarian National Bank. The governmental audit of law enforcement agencies, the National Tax and Customs Administration, and the Military National Security Service must be carried out in consideration of their specific operational characteristics and the relevant legislation (Kormányzati Ellenőrzési Hivatal, 2008).

3.2.2. The Authority Auditing European Funds – Directorate General for Auditing European Funds

The Directorate General for Auditing European Funds (EUTAF) has audit powers covering the following areas:

- audits related to budgetary subsidies defined in Government Decree No. 210/2010, primarily those financed from European Union sources, carried out at beneficiaries and other organizations involved in the implementation of the grants;
- examination of procurements implemented through the use of budgetary subsidies, including the verification of the performance of contracts concluded for such procurements and the auditing of the contracting parties responsible for, or participating in, their execution (Vértessy, 2022).

3.2.3. *The Hungarian State Treasury*

The audit activity of the Hungarian State Treasury covers the examination of the use and accounting of funds planned in, and disbursed from, the state budget. As a result of its audits, the Treasury may issue binding decisions and order the repayment of public funds used for purposes other than those intended.

Its specific audit authority extends, in relation to local governments, nationality self-governments, associations, regional development councils, and the budgetary institutions under their direction, to the following areas:

- verification of compliance with accounting and bookkeeping obligations as prescribed by law;
- examination of the fulfilment of data provision requirements laid down in the Act on Public Finances;
- assessment of the reliability and the true and fair presentation of the annual budget reports (Lentner, 2024).

4. Internal Audit and Internal Control System

Internal audit forms an integral part of managerial control. Within this framework, the budgetary institution itself establishes a system to ensure that its activities are carried out lawfully, efficiently, economically, and effectively.

Government Decree No. 370/2011 provides detailed regulation on internal audit and internal control systems, based on international and national standards, statutory provisions, as well as governmental and ministerial decrees. The head of each budgetary institution is responsible for establishing and operating the internal control system, ensuring the existence and functioning of the following elements:

- Control environment: a clear organizational structure, well-defined responsibilities and powers, and clearly assigned duties;
- Integrated risk management system;

- Control activities: built-in preventive and follow-up controls, approval mechanisms related to financial and operational procedures;
- Information and communication system;
- Monitoring system: continuous observation of the achievement of objectives and activities.

These internal control principles are closely aligned with the international standards set by the International Organization of Supreme Audit Institutions (INTOSAI) and the OECD Guidelines on Internal Control Systems. By following these globally recognised frameworks, Hungarian public institutions ensure that their audit processes meet modern expectations of efficiency, integrity, and risk management. The harmonisation with international best practices also contributes to the credibility of the domestic fiscal oversight system.

Internal audit is an independent, objective assurance and advisory activity whose primary aim is to improve the operation and efficiency of the audited organization. In local governments, the notary is responsible for operating the internal control system and must ensure that municipal resources are used lawfully, economically, efficiently, and effectively. In municipalities with more than two thousand inhabitants, the financial committee is considered an important part of the local internal control system. The committee has supervisory powers, including the monitoring of budget revenues, changes in assets, and the assessment of the justification of financial commitments (Lentner, 2024).

5. Conclusion

The Áht. provides detailed regulation of the control mechanisms of public finances, facilitating the supervision of the transparent and efficient use of public funds. Its primary objective is to ensure the lawful, economical, effective, and efficient application of public resources and assets. The system of public finance control extends to all subsystems of public finance.

The control framework of public finances rests on three fundamental pillars: external audit, governmental-level control, and internal control and internal audit within the public sector. These pillars complement one another, forming an integrated and indispensable system of fiscal oversight that guarantees strong safeguards and transparency in the management of public funds.

Through its multi-level structure, the system of fiscal control not only ensures compliance and accountability but also reinforces public confidence in the proper functioning of the state. In the context of European integration and digital governance, the continuous improvement of audit mechanisms remains

essential to strengthen transparency, efficiency, and responsible fiscal management. Effective fiscal control thus serves as a cornerstone of good governance, ensuring that public resources are managed in a way that promotes sustainable development and public trust.

Furthermore, continuous capacity building of public sector auditors and the integration of innovative audit technologies can further enhance the quality and reliability of fiscal oversight in Hungary.

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