Máté Kiss: The Establishment of the State Audit Office in Hungary

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DOI 10.21862/siaa.8.6

1. Introduction

The topic of my paper is the establishment of the State Audit Office. Recently, it has been renamed many times, and its competences were also often changed. In this paper, I will focus on the second half 19th century, because the concept behind this institution began to formulate during this period. The agreement between the Austria and Hungary caused difficulties, until the compromise of 1867. The main question was how to create an institution capable of examining the finances of the states of the monarchy both separately and together.

2. About audit offices in general

For these reasons, the institution initially played a more administrative role, which was increasingly necessary as the royal courts developed and expenses increased. Consequently, it became possible to allocate state assets more effectively, plan for the future more carefully, and perform calculations. Audit accounting emerged in the early years of feudalism. This was usually a separate office held by a high-ranking official who, alongside the king, was responsible for managing the finances. This position also existed in England, Germany, France and Hungary during this period. In our country, the treasurer (in Latin: thavernicatus) was responsible for managing state funds. As the years passed and audit offices developed, they presented more and more administrative problems and became the perfect place to commit corruption. An example of this is France, where senior positions were usually given to people close to the royal family or sold for money. The establishment of audit offices was also driven by corruption, because it was only possible to uncover such crimes with the existence of such institutions. The development of audit offices was closely linked to the development of budgeting and taxation. In some cases, medieval states had to levy taxes on their citizens to finance frequent warfare. To be able to track who paid and who didn't, as well as how much money was collected, an institution was needed to perform this task. This data was essential for starting a war, as it made it possible to calculate how much money could be spent on weapons and soldiers. Following the English model, budgetary law initially emerged as the main task, but the final accounts

were not yet included.Overall, it can be said that in the beginning its main task was to document the money coming into and out of the royal treasury.[1] In today's parlance, this means accounting. Nowadays, audits by the Audit Office must be carried out by an organisation that is separate from the executive power, is authorised by parliament and performs its tasks according to professional criteria. These criteria are necessary to guarantee full independence. This is an extremely important aspect because the body has enormous influence over certain financial matters. If anyone misuses this influence, it could cause huge financial disadvantage to the country.

The antecedents of the State Audit Office in Hungary

3. The financial control before 1868

In the Habsburg Empire, of which the Hungarian state was also a part until the Compromise of 1867, a financial control organisation had already existed by the 18th century. In 1761, Maria Theresa established the Court Auditing Chamber, which controlled public expenditure. However, this institution did not serve the principle of popular sovereignty, but rather the political and economic goals of the current ruler. Interestingly, paper money was also first issued in the Habsburg Empire in the same year, alongside the establishment of many institutions related to financial affairs.[2] Clearly, many developments were made during this period to modernise the monitoring of imperial finances. This was necessary because the larger and more developed an empire becomes, the more difficult it is to track its income and expenditure.

In April 1848, a change occurred in Hungary when Parliament created laws that transferred executive power from the Governor's Council, the Chancellery and the Chamber to the government. It was during this period that the need for an institution to oversee public expenditure emerged.[3] This is supported by an article of the law on establishment of the Hungarian government responsible to the National Assembly, which states that: *"The ministry is obliged to present the statement of the country's incomes and needs – and looking at the past , the calculation of the incomes it manages for parliamentary examination and approval – every year at the Lower House".*[4] As the House of Representatives cannot fulfil this obligation independently, it was necessary to establish an independent body to do so. To implement Article 37, Act 3 of 1848 established the National Auditing

[1] PÉTERVÁRI 2002. p. 62–68.
[2] KOVÁCS, Árpád: A M. Kir. Állami Számvevőszék 1870-es megalakulása és előzményei [The establishment and antecedents of the Hungarian Royal Audit Office in 1870]. *Állam-és igazgatás – Magyar Közigazgatás*. 2000. No. 11, p. 668–672.
[3] KOVÁCS 2000. p. 668–672.
[4] Act 3 of 1848 on the formation of the independent Hungarian responsible ministry § 37

Commission. The institution's main tasks included financial control of the government and review of the final accounts. Unfortunately, this body was forgotten due to the ongoing military situation and defeat in the war of independence.[5]

In the era of neo-absolutism, the financial control organizations of Hungary and Austria were centralised. Between 1854 and 1 January 1867, the *Obersterechnungscontrollbehörde* (General Accounting Control Office) carried out financial control at the highest level in the Austrian Empire. Approaching the Austro-Hungarian Compromise, however, this scope of responsibility was split, in Austria it was carried out by the *Oberster Rechnunghof* (General Court Audit Office), while in Hungary it was carried out by the state accounting department, which belonged to the Ministry of Finance. The latter's tasks included the complete control of financial and economic control, thereby also preparing the final accounts. Accordingly, in 1868 and 1869, this institution prepared the financial statement for the previous year. Many people were sceptical about the operation of the organisation, which at that time was not yet independent from the government, as it operated under the Ministry of Finance.[6]

4. The financial control after 1868

By the second half of the 19th century, the idea that Parliament was unable to exercise financial control over the government had become widespread across Europe. Therefore, it was deemed necessary to establish a separate institution for this purpose. According to the principle of separation of powers, it was also widely held that this institution should be separate from the executive power. This was considered too broad a task for the legislative power, and neither Parliament nor one of its committees could undertake it.[7] Considering these facts, the Parliament passed Act 18 of 1870, decided in a legal article on the State Audit Office.[8] The law was approved by the king on 30 May 1870.[9] This law established the institution and regulated its competences.

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[5] RÉVÉSZ T. Mihály: Az Állami Számvevőszék felállítása és működésének kezdetei [The establishment of the State Audit Office and the beginnings of its operation]. *Pénzügyi Szemle*, 2012. No. 1, p. 98–111.

[6] RÉVÉSZ T. Mihály: Az Állami Számvevőszék felállítása és működésének kezdetei [The establishment of the State Audit Office and the beginnings of its operation]. *Pénzügyi Szemle*, 2012. No. 1, p. 98–111.

[7] RÉVÉSZ T. Mihály: Az Állami Számvevőszék felállítása és működésének kezdetei [The establishment of the State Audit Office and the beginnings of its operation]. *Pénzügyi Szemle*, 2012. No. 1, p. 98–111.

[8] MEZEY Barna: *Magyar Alkotmánytörténet [Hungarian constitutional history]*. In Bódiné Beliznai Kinga *Az állam szervei: Az állami ellenőrzés szervezete: Állami Számvevőszék [Organs of the state: Organization of state control: State Audit Office].* Budapest, 2003. Osiris, p. 204.

[9] KOVÁCS 2000. p. 668–672.

In 1868, the Supreme Court of Auditors of the Monarchy was established. Its task was to control the common affairs created during the compromise (foreign affairs, military affairs, and the related financial affairs).[10]

Monarchy and state level financial control

5. Imperial and Royal General Audit Office

As previously mentioned, a separate institution was created to manage the financial aspects of the common affairs in 1867. It was called the Imperial and Royal General Audit Office.[11] The first presiding officer of the common auditor's office was Károly Hock (1868-1869), who was followed by József Preleuthner (1869-1871). They were followed by Lipót Wieser (1877-1879) and Vilmos Tóth (1879-1895). The last president of the Imperial and Royal General Audit Office was Ernő Plener, who held the title between 1895 and 1918.[12]

The detailed structure of the agency's organisation remains obscure, but it is known that a team of around thirty people supported the agency's work. Additionally, the president and five principals acting as court councillors or class councillors, five court secretaries, fifteen accountants and three accounting assistants participated in the institution's daily operations. The presidential departments had a wide range of responsibilities. They handled personnel matters and the ruler had to submit annual reports. It was also their responsibility to prepare and submit the final accounts to the common affairs committees. The Imperial and Royal General Audit Office could conduct annual audits, the reports of which also had to be prepared by the Presidency. The case departments inspected the Ministry of War's institutions and the corps and divisions. Following the dissolution of the Austro-Hungarian Monarchy after the First World War, the common audit office ceased to exist as an institution.[13]

6. Hungarian Royal General Audit Office

Alongside the regular audit office, a financial body operated within Hungary's borders. As I mentioned earlier, the Hungarian Royal General Audit Office was established in 1870. However, the election of its first president posed a significant challenge. The selection process took place at the

[10] KOVÁCS 2000. p. 668–672.
[11] DOROGI, Zsolt – LEGEZA, Dénes: Weninger Vince szerepe a Magyar Királyi Állami Számvevőszék létrejöttében [The role of Vince Weninger in thecreation of the Hungarian Royal State Audit Office]. *Glossa Iuridica*, 2017. No. 3–4.
[12] *Ibid.*
[13] *Ibid.*

same time as the law establishing the body was being negotiated. Several leading politicians of the time, including Ferenc Deák, Gyula Andrássy and Menyhért Lónyay, considered Vince Weninger to be the most suitable candidate. However, several other political figures wanted Antal Csengery to be appointed president.[14] Without a suitable body, the control of the final accounts for 1867 and 1868 also caused serious problems. According to the April laws, parliament must carry out this task by the appropriate deadline, regardless of whether a specialised body already exists for this purpose. The finance committee of parliament was asked to take on this task, but they rejected the request, citing professional reasons. The solution was to set up a seven-member commission, established in December 1869. Its president was Salamon Gajzágó. The commission worked extremely quickly and managed to complete the audit of two years' worth of accounts by 1 April 1870. Subsequently, Menyhert Lónyay nominated Vencel Weninger, a reputable financial specialist. However, he lacked the confidence to take on the role. On 25 June 1870, the House of Representatives held a vote to decide who the three candidates to be submitted to the monarch should be. Of the candidates, only Weninger had the necessary professional experience in financial control and accounting. Nevertheless, Prime Minister Gyula Andrássy submitted Salamon Gajzágó's name to the ruler. Following these events, Gajzágó became the first president of the Hungarian Royal General Audit Office.[15]

The establishment of the Hungarian Royal General Audit Office

7. Preparation and discussion of the bill in the Parliament

The bill establishing the Hungarian Royal General Audit Office was drafted in the Parliamentary Finance Committee. Two legislative proposals were received, and a report dated 12 December 1869 stated that the proposal submitted by the Minister of Finance, Lónyay Menyhért, was more organised in terms of its structure. This did not mean that the proposal was accepted, but it provided a basis for further discussion. The committee's most significant amendment concerned the status of the chairman of the audit committee. According to Lónyay's proposal, here the prime minister would present the president of the auditor's office to the monarch, while the president himself would recommend his advisers to the king for appointment. However, the committee objected to this, as they wanted to create an organisation that was independent of the government. This would not be possible if the prime minister could propose the president of the body. Regarding this matter, the committee believed that it would be appropriate for the House of Representatives to propose a

[14] *Ibid.*
[15] *Ibid.*

candidate for president. The finance minister and the committee also had different views on the authority of the body. Based on the committee's point of view, the Audit Office's authority should also cover pension control, so they wanted to supplement the bill with a related paragraph. However, Menyhért Lónyay expressly opposed this, stating in a speech that he did not intend to submit the proposal to the monarch with these amendments. The Council of Ministers remained neutral on the issue as they realised that, for political reasons, if they were not willing to compromise, it could take a very long time for the law to be presented to parliament. Consequently, the amendment concerning the examination of pensions was rejected so that the proposal could be included in the parliamentary agenda.[16]

The "detailed" debate on the bill began in parliament on 7 February 1870. The central committee considered it of the utmost importance that the State Audit Office remain neutral in the political struggles of the parties and not be influenced by them. According to the central committee, for the auditor's office to perform its tasks satisfactorily, it must be incorporated into a system of state bodies based on principles that ensure the undisturbed exercise of its powers. Kálmán Széll categorised these principles into two groups. The first group is based on the idea that the law must provide the body with the necessary degree of independence to perform its tasks properly. The second principle was that a high degree of independence must fit into the parliamentary form of government.[17] Gyula Györffy presented the minority opinion of the Central Committee, stating that he did not consider the bill to be adequate in several respects. The representatives considered the Audit Office to be a parliamentary aid in terms of financial control; therefore, they deemed it essential to separate the body from executive power. This requirement was met by §2 of the law, which stated that the body must be independent of the ministry. While the section of the law containing §§ 1–20 did not spark significant debate among the representatives, the subsequent sections became the subject of heated debate.[18] The opposition became more acute during the discussion of Section 21. According to this section, the State Audit Office prepares a report on all audits carried out each quarter and sends it to the Council of Ministers along with its recommendations. However, this part of the law was not in accordance with Sections 9 and 15, which state that if the Audit Office discovers financial abuse, it should be reported to both the Council of Ministers and Parliament. However, this

[16] RÉVÉSZ Tamás: *A központi állami ellenőrzés szervezetének kialakulása Magyarországon 1867 után [The formation of the organization of central state control in Hungary after 1867].* Budapest, 1971. Az ELTE Magyar Jogtörténeti Tanszékének kiadványai [Publications of ELTE Department of the History of Hungarian State and Law], pp. 24–27.
[17] RÉVÉSZ 1971. p. 27–28.
[18] RÉVÉSZ T. Mihály: Az Állami Számvevőszék felállítása és működésének kezdetei [The establishment of the State Audit Office and the beginnings of its operation]. *Pénzügyi Szemle*, 2012. No. 1, p. 98–111.

amendment proposal was not accepted by Parliament. There was also a great deal of debate about the fact that, if the State Audit Office were to present the final accounts to Parliament, the ministry would be subordinated to the financial control body. This was against the government's interests, given the Audit Office's extensive auditing powers. In the parliamentary vote on the law, 166 voted in favour, 147 against, and 118 abstained.[19] The proportion of votes shows that the sharp debates were not unfounded; the law was passed by a narrow margin. Interestingly, the newspaper Pesti Napló also reported on the parliamentary debate on the draft law, providing readers with a detailed explanation of the conflicts of interest surrounding the proposal, complete with verbatim quotes.[20]

8. The enacted law

The law consisted of a total of 30 sections. It was enacted on 30 May 1870 and announced in the House of Representatives on 6 June and in the House of Lords on 21 June.[21] Section 2 of the law ensured independence from the ministry. Section 3 defined the personnel of the Audit Office, consisting of a Chairman, a Chief Auditor, the required number of Auditors and Support Staff. The president's salary could be equivalent to that of a minister. Sections 4 and 5 of the law set out the rules on conflicts of interest, which stipulated that, for example, the chairman of the body could not be a member of the lower or upper house of parliament.[22] Section 6 provided for the appointment of the president of the body, as well as the chief accountant and accountants. Section 13 included the solution of sectoral and central coordination.[23] According to § 12, double bookkeeping must be maintained at the State Audit Office, a practice that is still common in modern accounting. The final three paragraphs of the law outlined its scope. According to §28, the audit court commenced operations immediately upon the law's enactment. According to § 29, the law applied equally in all countries of the Hungarian Crown. According to §30, responsibility for implementing the law lied with the Prime Minister.[24]

9. The operation and scope of work of the Hungarian Royal General Audit Office

The Hungarian Royal General State Audit Office began operating at the start of 1871. This body prepared the final accounts for 1870, as well as accepting the final accounts for 1868 and 1869. The

[19] RÉVÉSZ 1971. p. 28–36.
[20] *Pesti Napló*, 1869. december 3. 278. sz. Melléklet
[21] Act 18 of 1870 on the establishment and powers of the State Audit Office
[22] RÉVÉSZ T. Mihály: Az Állami Számvevőszék felállítása és működésének kezdetei [The establishment of the State Audit Office and the beginnings of its operation]. *Pénzügyi Szemle*, 2012. No. 1, p. 98-111.
[23] RÉVÉSZ 1971. p. 30-31.
[24] Act 18 of 1870 on the establishment and powers of the State Audit Office

temporary rules of procedure for the auditor's office were based on the former state accounting department's regulations, which were approved by the king on 14 November 1870. When presenting the first public finance results prepared independently by the office, the State Audit Office also highlighted deficiencies in the portfolio management of various ministries.[25] However, a major conflict arose between the newly formed Audit Office and the Council of Ministers from this report. The latter body provided feedback on the report three months later. Subsequently, the government began efforts to downgrade the State Audit Office to a primarily numerical, administrative auditing body. The Council of Ministers argued that the Court of Auditors had exceeded the authority mentioned in § 14 of Act 18 of 1870. It took years for Parliament to express their opinion in the debate, and when they did, it did not contain any information relevant to the discussion. The House of Representatives did not take a position in the debate, which the government interpreted as tacit consent. From now on, the Audit Office is 'merely' a body authorised to carry out numerical and audit checks.[26]

The president of the State Auditor's Office is appointed by the king for life on the initiative of the House of Representatives and the recommendation of three individuals appointed by parliament, a decision which is countersigned by the prime minister. The vice president, auditors' advisors, department advisors and secretaries are appointed by the king on the president's recommendation and the prime minister's proposal, while other officials are appointed by the president of the State Auditor's Office. The president is responsible to parliament and is exempt from criminal liability under Act 3 of 1848. The legal article on ministerial responsibility applies. The president's salary is equivalent to that of ministers.[27]

According to Károly Kmety, the competence of the State Auditor's Office is as follows: "*The competence of the State Auditor's Office covers the control of all state revenues and expenditures and the management of state assets and state debts, as well as state accounting: its task is to keep records and check that all accounts are made in accordance with the accounting rules and whether all vouchers comply with the provisions of the Budget Act and other relevant laws, contracts, and effective decrees.*"[28] Other duties of the audit office include checking the current amount of

[25] RÉVÉSZ 1971. p. 38.
[26] RÉVÉSZ T. Mihály: Az Állami Számvevőszék felállítása és működésének kezdetei [The establishment of the State Audit Office and the beginnings of its operation]. *Pénzügyi Szemle*, 2012. No. 1, p. 98–111.
[27] KMETY Károly: *A magyar közigazgatási jog kézikönyve [Handbook of Hungarian administratiwe law*] Budapest, 1897. Politzer Zsigmond könyvkereskedő kiadása, p. 688.
[28] KMETY 1897. p. 688–689.

changeable currency and supervising compliance with pension rules. However, the most important task of all is to prepare the final accounts of the previous year and send them to the Council of Ministers by the 1 September at the latest. Both the parliament and any of its houses may request documents from the Audit Office, which the body performing the financial audit must send.[29] The work of the State Audit Office is assisted by the ministry audit offices, which are the ministerial audit offices operating in the ministries, as well as the audit offices of lower authorities. The former body is headed by a director who is subordinate to the minister in charge of the given ministry. The accounting of the subordinate authorities is led by a chief.[30]

Summary

The establishment of the State Audit Office was particularly significant for Hungary at that time. Firstly, given the pace of European development, the time had come for the establishment of such a body in Hungary. Prior to this, financial control could not be performed within such an organised framework. At that time, Parliament was managing exceptionally large sums of money, so it was important to create such a body to avoid possible abuses. Secondly, the process of establishing the body and appointing its leaders improved relations between the states of the newly formed Austro-Hungarian Monarchy. For example, the president of the body was appointed by the prime minister and the monarch jointly. Appointing the president for life meant that they could not collude with the government in power. Interestingly, the President of the State Audit Office is now elected for a twelve-year term.

[29] KMETY 1897. p. 689.
[30] KMETY 1897. p. 689.