

BACKGROUND NOTE ON ACTION PLANS

The SMO Action Plan is intended to provide a summary of:

- The legal and regulatory environment for the profession;
- The status of adoption of international standards and best practices in the jurisdiction; and
- The actions of a Member or Associate to fulfill IFAC membership requirements.

IFAC [Statements of Membership Obligations](#) (SMOs) require IFAC Members and Associates to support the adoption¹ and implementation² of international standards and other pronouncements issued by independent standard-setting boards under the auspices of IFAC as well as by the International Accounting Standards Board (IASB); and to establish a quality assurance (QA) review and investigation and disciplinary (I&D) systems. The SMOs are recognized as the international benchmarks for credible and high-quality PAOs that are focused on and have the necessary expertise to serve the public interest and meet the market demands of their respective jurisdictions.

IFAC Members and Associates conduct a self-assessment against the requirements of SMOs and identify areas where, if any, improvements are needed. Members and Associates should develop an Action Plan to (a) demonstrate how they fulfill the requirements of the SMOs (revised in 2022), and (b) where some requirements are not yet addressed, to present plans towards their fulfillment. Action Plans are designed to be **ever-green** documents that take into consideration IFAC recommendations. Depending on the PAO's level of fulfillment (see *IFAC's Summary Assessment* – page 2), an Action Plan may not be necessary for each SMO section and instead the '*Attestation of Ongoing SMO Compliance*' is used to confirm their ongoing commitments. However, PAOs may wish and are welcome to utilize the Action Plan as a tool to demonstrate how they are using 'best endeavors' and going beyond their mandate with innovative approaches to fulfilling the SMOs and strengthening the national profession.

The specific details of each organization's actions will vary even where two PAOs are involved in the same SMO area. Each PAO operates in its own unique regulatory and standard-setting framework and has different operating, technical, and resource capacities. Moreover, in deciding when and how a particular SMO requirement is to be addressed, PAOs might have differing timeframes and objectives to achieve. Notwithstanding these inevitable differences, seeking the advice and assistance of other PAOs who have already faced and dealt with similar challenges can save significant time and resources. IFAC staff will offer assistance as needed.

Regular updates of the SMO Action Plans are required as part of the [IFAC Member Compliance Program](#).

Use of Information

Please refer to the [Disclaimer](#) published on the IFAC website.

¹ *Adoption* is concerned with the decision that international standards are appropriate for use in specific national financial reporting environments and with the actions necessary to affect those decisions, including incorporation into national requirements or requiring the use of international standards through law. Adoption may include a process to review draft international standards, translation, public exposure of proposed standards, approval, incorporation into national requirements as necessary, and promulgation of final standards, and, where applicable, a convergence process to eliminate or minimize differences between international and national standards.

² *Implementation* may include a process to build awareness of the adopted standards, provide relevant education and training, develop, or disseminate implementation guidance and any other activities that promote proper understanding and use of the standards in practice.

ACTION PLAN

IFAC Member:

The Chamber of Hungarian Auditors (MKVK)















Approved by Governing Body:

MKVK Presidium

Last Updated:

October 2023

IFAC's Summary Assessment: IFAC staff will complete this section at the conclusion of each SMO Action Plan review and update process. PAOs are encouraged to take staff's recommendation into consideration as part of future strategic planning conversations at the PAO. For more information on IFAC Member Compliance Program Dashboard Reports and the legends used to describe the status of adoption of international standards, best practices, and fulfillment of SMO requirements, please refer to the Status of Adoption [methodology](#) and SMO Fulfillment [methodology](#).

	MKVK Level of Responsibility for Adoption of Standards	Adoption Status as of 2023-4	Level of SMO Fulfillment as of 2023
QA / SMO 1	Shared	 Adopted	 Sustain
IES / SMO 2	Shared	 Adopted	 Sustain
ISA / SMO 3	Shared	 Adopted	 Sustain
IESBA / SMO 4	Shared	 Adopted	 Sustain
IPSAS / SMO 5	No Direct	 Not Adopted	 Sustain
I&D / SMO 6	Shared	 Adopted	 Sustain
IFRS / SMO 7	No Direct	 Adopted	 Sustain

Attestation of SMO Compliance

The **Chamber of Hungarian Auditors (MKVK)** has developed an Action Plan to demonstrate how it fulfills the requirements of the SMOs (revised in 2022). The abovementioned *Governing Body* has reviewed the information contained within the SMO Action Plan and affirms that the **MKVK** continues to undertake these and other relevant actions to maintain ongoing compliance and fulfillment of the membership obligations where IFAC's assessments are at *Review & Improve* and/or *Sustain*.

On behalf of the **MKVK**, the *Governing Body* endorses the information contained within the SMO Action Plan as of the publication date and its publication on the IFAC website in the interests of transparency and to demonstrate our commitment to enhancing the quality and credibility of the accountancy profession worldwide.

GLOSSARY

CPD	Continuous Professional Development
EU	European Union
HSST	Hungarian Standards Setting Board
IAASB	International Auditing and Assurance Standards Board
IAESB	International Accounting Education Standards Board
IASB	International Accounting Standards Board
IES	International Education Standards
IESBA	International Ethics Standards Board for Accountants
IFAC	International Federation of Accountants
IFRS	International Financial Reporting Standards
IPSAS	International Public Sector Accounting Standards
IPSASB	International Public Sector Accounting Standards Board
ISA	International Standards on Auditing
ISQC1	International Standard on Quality Control 1
MKVK	Chamber of Hungarian Auditors
PIE	Public Interest Entity
QA	Quality Assurance
SMO	Statement of Membership Obligations

Action Plan Subject: SMO 1 and Quality Assurance (QA)
Action Plan Objective: Completing the Quality Assurance System

#	Start date	Actions	Completion Date	Responsibility	Resource
<p><i>Background:</i></p> <p>The Chamber of Hungarian Auditors (MKVK) was established by Act LV of 1997 as a self-regulatory body. The Act gives the Chamber the responsibilities and rights with respect to Quality Assurance (QA) of all its members that perform audits of financial statements. Membership of MKVK is mandatory for all auditors in Hungary. The rules of the revised Chamber Act came into force as of January 1, 2008 (Act LXXV of 2007 on the Chamber of Hungarian Auditors, the Activities of Auditors, and on the Public Oversight of Auditors). This is the current law in effect (https://net.jogtar.hu/jogszabaly?docid=a0700075.tv&dbnum=62&getdoc=1). The Act LXXV of 2007 establishes the creation of a quality assurance (QA) review system for all mandatory audits in the jurisdiction. The QA review system is to be operated by the Hungarian Chamber of Auditors (HCA) under the oversight of the Auditors' Public Oversight Authority (POA). Since 2013, the POA carries out reviews for auditors of public interest entities (PIEs) every three years while inspections of non-PIE auditors are done every six years by the HCA, however, based on risk-based selection criteria, each auditor can be selected more often than that. Risk based selection criteria include for example a noncompliant previous result. It will definitely be included in the chamber selection: more than 100 or less than 2 audit reports issued by an auditor, auditors who are new or renewed members of the chamber (Detailed ruling: Chapter XI Quality Assurance in Act LXXV of 2007).</p> <p>The POA operates as a department within the Finance Ministry.</p> <p>In 2022 according to the data reported by auditors 42,186 audit reports were issued by statutory auditors. Out of this, 169 reports are related to PIE companies.</p> <p>After the Audit Reform in the European Union in 2016, the QA system has been further strengthened and the range of imposable sanctions was widened. Currently, MKVK's Quality Control Committee can impose the following sanctions:</p> <ul style="list-style-type: none"> - mandatory participation in advanced training; - a warning to terminate an existing infringement, if any; - fine - between 100,000 and 100 million forints in case of registered statutory auditors, or between 100,000 and 500 million forints in case of audit firms; - initiating the withdrawal of the qualification under Section 49 of the Act LXXV of 2007; - restraint order from exercising the profession of carrying out statutory audits from one up to three years (automatically applied in case of second noncompliant result). <p>MKVK adopted all clarified ISAs including ISQC 1 from January 2011. To move in line with international requirements, the QA system has been reviewed to assess alignment with SMO1 and relevant standards, and its methodology and materials have been clarified and updated. The Experts' Committee undertakes periodic reviews of Quality Control Questionnaires and updates relevant sections as necessary.</p> <p>The POA is committed to improving the auditor quality. On a yearly basis POA requests significant number of individual inspections from the inspections performed by HCA quality reviewers and performs detailed reviews on it. (Most recently, 116 individual inspections were selected from</p>					

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<p>the 438). As a result of the review, the POA prepare a summary report of their findings, which is sent to HCA. The Quality Control Committee studies the findings and prepares an action plan for improvement</p> <p>The requirements for quality reviewers changed from 2023. Quality reviewers are required to take an exam every 3 years. The exam takes place online and 50 multiple choice questions are to be answered in 60 minutes. A score of 60 percent is required to pass the exam Preparation for this year's exam has been completed at the annual conference of the Quality Control Committee. The exam regulations are ready and the supporting topics for the exams will be published on the chamber's website to help future examinees prepare. A quality reviewer cannot carry out a quality inspection without passing this exam starting from September 2023.</p> <p>Stricter selection criteria have been introduced for new quality reviewers. In addition to meeting the content requirements (e.g.: at least 30 audit engagements in the last 6 years, no history of disciplinary proceedings, no 'non-compliant' result), the Quality Control Committee conducts an interview with the applicant, after which it is evaluated, and decision is made on admission. In the case of new entrants from 2023, it is also necessary to pass the above-mentioned exam to perform on-site inspections.</p> <p>At the initiative of the POA, the Quality Control Committee introduced peer review on the on-site inspections' reports performed by the quality reviewers. All reports of inspections are evaluated/reviewed by the members of the Quality Control Committee and the result is documented. After this peer review, the committee makes a decision on the given inspection. The work of the Quality Control Committee has been assisted by a professional staff member since the fall of 2022. The professional staff member contributes to the peer review of the individual on-site inspection reports and provides assistance during committee meetings and during the drafting of the formal resolutions on the results of the inspection.</p> <p>After the quality inspection season between September and December, the committee evaluates the work of the quality reviewers. During the evaluation, the experiences of the committee members, the feedback of the POA and the professional staff member are taken into account. If, after the evaluation, the committee finds that there are deficiencies in the work of a given quality reviewer, it may exclude him or her from the future on-site inspections</p> <p>HCA translated and adopted the new quality management standards (ISQM 1 ISQM 2 and ISA 220 (Revised)) with the implementation date of 1 January 2024. To help members in the implementation process, training on QM standards is included in the mandatory CPD program in 2022 and 2023, and further implementation guidance was prepared by the Expert Committee and made available through the chamber's website.</p> <p>The new quality management (QM) system will first be subject to onsite inspections in 2025 as the implementation date of QM is 1 January 2024. As part of the preparation for this, quality reviewers will be provided with detailed training during the 2024 and 2025 annual conferences of the Quality Control Committee. The necessary changes to the quality management questionnaires will be made in 2024.</p>					
<i>Completing the Quality Assurance System</i>					
1.	Ongoing	MKVK continues to review the audit procedures and documentation of practitioners in accordance with the current requirements set out in laws, standards, regulations and best practice.	Ongoing	President of the Quality Control Committee	MKVK staff

#	Start date	Actions	Completion Date	Responsibility	Resource
		Current regulations and standards for members of MKVK are available on the MKVK website. In addition, the set of all standards are available in a unified structure on 'Jogtar' website (using an external service provider for keeping updated not only the database of Hungarian legislation, but also the whole set of Hungarian National Standards.)	Ongoing	Technical Vice President	2 professional staff members
Maintaining Ongoing Processes					
2.	Ongoing	Write an annual report on the Quality Assurance reviews. Continue to ensure that the Quality Assurance methodology reference book provides effective guidance, and covers all the related issues and that the Quality Assurance review system continues to be in line with the SMO 1 requirements.	Ongoing	President of the Quality Control Committee	MKVK staff
3.	Ongoing	<p>Prepare annual quality assurance plan on a risk-based sample basis; present the plan for approval.</p> <p>The Quality Control Committee prepares the annual quality assurance plan and publishes it on the website of MKVK by August 31 each year. https://www.mkvk.hu/szervezet/bizottsagok/minosegellenorzes/ellenorzesiterv. According to the applicable law, quality assurance review procedures are conducted at registered statutory auditors and audit firms (together hereby referred to as: auditor) at least once every six years. The Quality Control Committee takes the following factors into account when performing the risk analysis to select further auditors for quality control:</p> <ul style="list-style-type: none"> - the on-site inspection at the auditor in the previous year resulted in a 'non-compliant' resolution (three types of resolutions are issued as the result of the on-site inspection: 1. compliant; 2. compliant with comments; 3. non-compliant.); - auditor signed an independent auditor's report for the first time in his/her professional career, or after a break as an auditor returning to the profession ; - auditor failed to correctly submit the annual data reporting prescribed in the law; 	Ongoing	President of the Quality Control Committee	MKVK staff

#	Start date	Actions	Completion Date	Responsibility	Resource
		<p>- auditor issued evidently faulty/wrong/inappropriate independent auditor's report</p> <p>Auditors are required to provide to the CHA a summary of the audit reports issued in the previous year. The annual quality assurance plan is prepared based on these data provided by the auditors. The plan is approved by the Quality Control Committee.</p>			
4.	Ongoing	<p>Prepare training materials based on the experiences of previous year's reviews, which highlight the most problematic elements as well as changes in standards to be considered.</p> <p>The Quality Control Committee suggests topics to the Education Committee about typical mistakes as well as best practices for inclusion in the annual mandatory training material or other training materials. The training material is made available to all auditors.</p>	Ongoing	President of the Quality Control Committee	MKVK staff
5.	Ongoing	<p>Train the quality reviewers at the annual conference of the Quality Control Committee.</p> <p>The Quality Control Committee organizes a two-day conference for quality controllers where participation is mandatory. Presentations are held by members of the Quality Control Committee and of the Experts' Committee, by the legal and IT staff of MKVK. All presentations are sent to the quality controllers before the conference. Due to the implementation of the QM standards the Quality Control Committee is considering to extend the conference to three days.</p>	Ongoing	President of the Quality Control Committee	MKVK staff
6.	01/01/2016	<p>Transition to an electronic sample selection system and building up the electronic data transfer function between the annual data reporting system and the annual quality control sample selection system.</p> <p>A new software was developed that stores the database built upon the annual data reports. It supports the selection system, contains electronic questionnaires and other forms used during the on-site inspection, and provides statistics and analytics. The software was developed upon the requests of the Quality Control Committee.</p>	Ongoing	President of the Quality Control Committee	MKVK staff

#	Start date	Actions	Completion Date	Responsibility	Resource
<i>Review of MKVK's Compliance Information</i>					
7.	Ongoing	<p>Perform periodic review of MKVK's response for SMO1 as necessary.</p> <p>The Quality Control Committee regularly evaluates its compliance with the requirements set out by IFAC for its members, in relation to the quality control system. The Quality Control Committee provides updated information to the Expert Committee who coordinates the communication with IFAC.</p>	Ongoing	President of the Quality Control Committee	MKVK staff

Self-assessment against Main Requirements of SMO 1

Requirements	MKVK's QA System	POA's QA System	Comments
	Yes (Y) No (N) Partially (P)	Yes (Y) No (N) Partially (P)	
Scope of the System 1. At a minimum, mandatory QA reviews are required for all audits of financial statements.	Y	Y	
Quality Control Standards and Other Quality Control Guidance 2. Firms are required to implement a system of quality control in accordance with the quality control standards.	Y	Y	
3. Most up to date versions of ISQC 1 and other relevant ISA are adopted as the quality control standards.	Y	Y	MKVK translated and adopted the new quality management standards (ISQM 1 ISQM 2 and ISA 220 (Revised)), implementation date is 1 January 2024. No changes in POA or MKVK QA review systems are planned, however, QA review material will be updated in

Requirements	MKVK's QA System Yes (Y) No (N) Partially (P)	POA's QA System Yes (Y) No (N) Partially (P)	Comments
			accordance with new quality management standards.
4. Member Body assists firms in understanding the objectives of quality control and in implementing and maintaining appropriate systems of quality control.	Y	Y	
Review Cycle 5. A cycle-based, risk-based, or a mixed approach for selecting firms for QA review is used.	Y	Y	APOA — Quality control shall be conducted at least every 3 years for PIE auditors, and every 6 years for non-PIE auditors.
6. For cycle-based approach, quality control reviews are required to take place at least every six years (and every three years for audits of public interest entities).	Y	Y	
QA Review Team 7. Independence of the QA Team is assessed and documented.	Y	Y	
8. QA Team possesses appropriate levels of expertise.	Y	Y	
Reporting 9. Documentation of evidence supporting the quality control review report is required.	Y	Y	
10. A written report is issued upon conclusion of the QA review and provided to the firm/partner reviewed.	Y	Y	

Requirements	MKVK's QA System Yes (Y) No (N) Partially (P)	POA's QA System Yes (Y) No (N) Partially (P)	Comments
Corrective and Disciplinary Actions 11. Reviewed firms/partners are required to make timely adjustments to meet recommendations from the review report.	Y	Y	
12. QA review system is linked to the Investigation and Discipline system.	Y	Y	APOA — In the procedure of inspections and investigations the Authority can impose the following sanctions: a) mandatory participation in advanced training; b) a warning to terminate an existing infringement, d) mandatory re-audit, or ordering to have the audit report withdrawn; e) financial penalty; f) withdrawal of special qualification; g) restraint order from exercising the profession of carrying out statutory audits (up to three years)
Consideration of Public Oversight 13. The body responsible for QA reviews cooperates with its oversight body and shares information on the functioning of the QA review system, as needed.	Y	N/A	
Regular Review of Implementation and Effectiveness 14. Regular reviews of implementation and effectiveness of the system are performed.	Y	Y	

Action Plan Subject: SMO 2 and International Education Standards and Other Guidance
Action Plan Objective: Continue to Use Best Endeavors to Ensure that all IES requirements are Incorporated

Background:

The Hungarian Chamber of Auditors establishes the initial and continuing professional development (IPD and CPD) requirements for auditors in Hungary. To earn the statutory auditor designation in Hungary and offer auditing services, individuals must first have acquired appropriate higher education and with professional qualifications in accounting obtained initial practical experience (three years). After passing all the written and/or oral exams from the eight courses during the auditor studies (appr. three years' part-time study), the individuals must serve as apprentice auditors under the supervision of an active member of the Hungarian Chamber of Auditors (HCA) for three years. From this 3 years period, 1 year can be comprised in the individual works in any of the accepted professions defined in the Charter of Hungarian Chamber of Auditors and in Mentoring Regulations.

After this period, candidates may take a final professional and competence exam. The examination board evaluates the professional experience obtained by applicants after passing the examinations. From 2021 there is change in examination; instead of preparing and defending an audit thesis, the HCA focuses on measuring directly in the exam the knowledge of ISAs and the capability of practical application. According to the new competency exam rules, the written part of the professional competency exam tests the application of auditing knowledge and requires the candidate to prepare a practical example in 60 minutes. During the written examination, the candidate may use any aids (technical tools, standards, publications, recordings) authorised by the Education Committee to enhance his/her performance.

During the oral part of the examination of professional competence, the candidate shall orally present and explain to the examination board the practical example developed and solved on the same day as the written examination and answer any other questions of the examination board related to the audit activity. In the oral examination, the examining board must satisfy itself that the candidate's theoretical and practical knowledge, awareness and other qualities are such as to enable him or her to carry out the audit profession in a professional manner.

The Committee for the Qualification of Chartered Certified Statutory Auditors (OKKT) and the HCA's Education Committee are authorized by law to determine the requirements of and implement all aspects of educational programming that leads to the designation.

The HCA has set CPD obligations for its members at 120 hours over three years to align with the 2010 IES. The annual CPD programming of the HCA is approved by the Auditors' Public Oversight Authority

The Committee for the Qualification of Chartered Certified Statutory Auditors (OKKT) and the HCA's Education Committee defines the requirements and provides textbooks and tuition for the examinations. HCA has established a training company, the Chamber's Centre for Education Ltd. which has significant role in the organization of the compulsory annual auditors' training as this Ltd. develops the IT support for the e-learning materials to meet the CPD requirements.

CPD requirements can be satisfied with: e-learning materials including videos with short tests embedded in videos and written professional materials provided in pdf. 4 CPD shall be obtained from the predetermined topics (approved by all the relevant bodies in HCA and public oversight organization), usually for modules. For another 4 CPD the auditors need to choose e-learning materials topics based on their interest and

qualifications. For 4 CPD auditors need to participate on trainings organized by the HCA's regional offices or other approved organizations which provide CPDs for auditors. The remaining 8 CPD can be obtained by self-education.

Members with special (public sector, financial institution, IFRS, insurance, issuer, investment service provider, etc.) qualifications shall obtain 2 credit points per qualification, but not more than 4.

The objective of auditors' training is to develop practical skills, to present actual problems auditors face, to inform them of changes in standards, and in general to address professional issues to help the auditors' daily work.

New achievements since 2019 Action Plan:

- The number of the available e-learning contents has been increasing since 2018, now appr 60 e-learning material is uploaded to the webpage of Chamber's Centre for Education Ltd and available for auditors.
- HCA introduces exams from autumn 2023 for the compulsory topics of e-learning materials. A minimum level is defined: If the auditor cannot reach the minimum level, the auditors need to repeat the e-learning materials and the tests as well. Any other longer term or more severe consequences will be developed as well.
- The Public Oversight Body is involved in education; in consultation with them, the subjects of compulsory education and the examination requirements are drawn up.

Conditions are ensured for all members to comply with CPD requirements. Accordingly, trainings are organized in a way that all members have appropriate access to these trainings – educational venue, content, lecturer, other services. As nowadays there are more online and e-learning trainings organized by HCA or any approved training companies, there is a wide offer for auditors' education and very flexible in timing. In case of compulsory 4CPD e-learning, usually the videos are uploaded in September and the auditors should complete them until the end of the year. Of course, all the CPDs shall be obtained within a calendar year.

The quality of the training materials has developed since 2018 in several aspects; in methodology, in content and in the selection of the lecturers.

According to the IES, the Education Committee and HCA emphasizes the importance of both learning outcomes and competencies in auditor candidates' education and in trainings for auditors. In order to support the measurement of these, there have been more changes – as mentioned above – in education and examinations.

Regarding IESs' 2,3,4,8:

The HCA's has translated the IESs into Hungarian, there is an ongoing translation review process to update them to the latest version.

According to IES 2 HCA developed 8 courses for the competence areas of IES 2. In the content of the courses HCA defined the learning outcomes in accordance with IES 2.

IES 3: When courses are developed, HCA focuses on learning outcomes for professional skills for intellectual, interpersonal and communication and personal competence area. On the other hand, there is no separate course for these skills but HCA tries to reach it across different course. HCA auditors' education includes a mixture of learning and development activities which combine structured learning programs and practical experience. As the auditor candidates' need to complete 2-3 years working in audit profession, the practical experience supervisors and other

colleagues play an important role in helping aspiring professional accountants to develop professional skills within the workplace. The examination changed to measure both the technical and professional skills – see above at final exam description.

IES 4: Topic of professional values, ethics and attitude is included in the education of auditors both at initial professional development and chartered auditors as well.

IES 8: Professional Competence For Engagement Partners Responsible For Audits Of Financial Statements – with the amendment of the methodology of compulsory yearly CPD trainings and with the introduction of examination about the contents of e-learning compulsory trainings, HCA takes into account the IES 8's requirements.

For IESs 2,3,4,8 HCA plans basically a yearly operational and a strategical 3-year review period.

MKVK plans to translate the most recent IESs into Hungarian during 2023.

#	Start date	Actions	Completion Date	Responsibility	Resource
<i>Maintaining Ongoing Processes</i>					
8.	Ongoing	Maintain and monitor new and revised international education standards and their translation into Hungarian and update the educational materials, courses and trainings.	Yearly	President of the Education Committee	MKVK staff
9.	Ongoing	Update the educational materials, courses and trainings.	Yearly	President of the Education Committee	HCA staff
10.	Ongoing	Cooperate with Public Oversight Body in setting the topics of trainings.	early	President of the Education Committee	MKVK staff
<i>Review of HCA's Compliance Information</i>					
11.	Ongoing	Perform periodic review of HCA's response to SMO 2 as necessary.	Ongoing	President of the Education Committee	MKVK staff

Action Plan Subject: SMO 3 and International Auditing and Assurance Standards Board (IAASB) Pronouncements
Action Plan Objective: Monitoring Ongoing Compliance with IAASB Pronouncements through the QA Review System

#	Start date	Actions	Completion Date	Responsibility	Resource
<p><i>Background:</i></p> <p>While the Hungarian parliament adopted the EU audit reforms in May 2016, the EU Commission has not yet adopted ISA. Public interest entities in the Hungary are defined as listed companies on an EU regulated market, all credit institutions but excluding the Hungarian National Bank, the Hungarian Development Bank, and the Hungarian Exim Bank, insurance undertakings except for those having less than EUR 4,800,000 gross premium income in the previous business year, and entities providing investment services.</p> <p>In addition, in accordance with the Act LXXV of 2007 on the Chamber of Hungarian Auditors, the Activities of Auditors, and on the Public Oversight of Auditors, companies surpassing both of the following thresholds must undergo a statutory audit: (i) the annual net sales (calculated for the period of one year) exceed HUF 300 million on the average of the two financial years preceding the financial year under review and (ii) the average number of people employed by the undertaking exceed 50 people on the average of the two financial years preceding the financial year under review.</p> <p>Applicable auditing standards in Hungary are also outlined in Act LXXV of 2007. Audits must be conducted in accordance with auditing standards that have generally been accepted internationally—further defined as ISA issued by the IAASB—that are prepared and issued by the Hungarian Chamber of Auditors (HCA) with approval by the MNE's Auditors' Public Oversight Authority. The HCA has translated and promulgated the ISA since 2011 and it completed translations of the new auditor's report in 2016 Between 2020 and H1 2023 the HCA translated and issued the following IAASB Standards and other Pronouncements: ISAE 3402, ISA 250 (Revised), ISAE 3410, ISRS 4400 (Revised) ISA 315 (Revised in 2019), ISA 540 (Revised), ISA 220 (Revised), ISQM 1, ISQM 2 and updated 23 standards and 3 Other Related Materials (Preface, Glossary and Framework) based on the 2020 IAASB Handbook. The translation of ISA 600 (Revised) is in progress, and expected to be completed and issued in the second half of 2023, with implementation date 1 January 2024. The Chamber prepares and maintains national standards on audit – which are Hungarian translations of ISA – under the approval of POA. Only auditors that are registered with the Authority and the HCA may undertake statutory audits.</p> <p>National legal framework provides possibility to issue specific national Auditing Standards beyond ISAs. The CHA worked out and implemented a new, special national audit standard for the audit of enterprises operating in the financial sector (banks, insurance companies, investment firms = financial enterprises). The professional auditors of these financial enterprises must submit a special and separate audit report to the Hungarian National Bank, the supervisory authority of the financial enterprises. This special audit report is about the compliance with special financial laws and regulations applicable to the financial enterprises, the relating audit work made by the auditor and the result of it. The requirements for the professional auditors are provided in the „6100. National Standard for Composing the Special and Separate Audit Report”. This national standard has to be applied for the audit of business year commenced on January 01, 2017, or later. This special standard is in line with ISAs.</p>					
<i>Maintaining Ongoing Processes</i>					

12.	Ongoing	Continue to inform members on a regular basis about the IAASB pronouncements and exposure drafts through our website and submit comments if relevant.	Ongoing	President of the Experts' Committee	MKVK staff
13.	Ongoing	Continue to translate on a regular basis the revised or amended standards and make them available for the public via the MKVK website. Issues practical guidance as appropriate. MKVK - Szakmai és etikai standardok	Ongoing	President of the Experts' Committee	Professional translators
14.	Ongoing	On an annual basis organize open seminars for member auditors/audit firms to have discussions with the Quality Control Committee on professional issues and quality control matters in order to share experiences and to help members improve the quality of their audit work and assist them in building up and implementing effective quality control procedures in their audit practices.	Ongoing	President of the Experts' Committee and Quality Control Committee	MKVK staff
<i>Review of MKVK's Compliance Information</i>					
15.	Ongoing	Perform periodic review of MKVK's response to SMO 3 as necessary.	Ongoing	President of the Experts' Committee	MKVK staff

Action Plan Subject: SMO 4 and the International Ethics Standards Board for Accountants (IESBA) Code of Ethics

Action Plan Objective: Adoption and Implementation of the IESBA' Code of Ethics

#	Start date	Actions	Completion Date	Responsibility	Resource
<p><i>Background:</i></p> <p>The Hungarian Code of Ethics was developed by CHA with government support including detailed explanations and process regulations dealing with independence, conflict of interest, cooperation between auditors, rules of ethical proceedings. As of 1 January 2008, CHA Code states that regulations of IESBA Code of Ethics shall apply to issues not covered by the CHA Code of Ethics.</p> <p>The IESBA Code, as revised in 2009, was translated and published on the CHA website. (http://www.mkvk.hu/szervezet/bizottsagok/fegyelmibizottsag/IFACetikaikodex).</p> <p>The Act LXXV of 2007 on the Chamber of Hungarian Auditors, the Activities of Auditors, and on the Public Oversight of Auditors stipulates that the Hungarian Chamber of Auditors (CHA) may adopt the rules of professional ethics, taking into consideration the Code of Ethics of the IESBA. These rules are subject to the review and approval of the Auditors' Public Oversight Authority.</p> <p>The HCA has developed a Hungarian Code of Ethics -in addition to the IESBA Code of Ethics- which is harmonized with the IESBA Code of Ethics. The revised CHA Code of Ethics is effective from July 01, 2017. The revised Code is in line with the EU audit reform. The IESBA Code of Ethics is to apply to any issues not covered by the CHA's Code of Ethics.</p> <p>The CHA translated and made available the Hungarian version of the IESBA Handbook 2018 Edition in 2020. The CHA submitted a translation request and started the translation process of IESBA Handbook 2022 Edition, which is expected to be completed in Q3 2023, and implemented from 1 January 2024. The CHA also submitted translation request for the separate final pronouncement of "<i>Revisions to the Code Relating to the Definition of Engagement Team and Group Audits</i>", which is expected to be completed by the end of 2023.</p>					
<i>Support of Implementation of the IESBA Code of Ethics</i>					
16.	09/2017	Translation of IESBA Code of Ethics (version 2016) and publication on MKVK's website after IFAC approval.	03/2018	President of the Disciplinary and Experts' Committee	MKVK staff
17.	28/3/08	According to the resolution of the Presidium, the IFAC Code of Ethics shall be included in the CPD program in 2018. Based on it CPD included a separate section about the new requirements of NOCLAR in 2018.	Ongoing	President of the Education Committee	MKVK staff

#	Start date	Actions	Completion Date	Responsibility	Resource
<i>Maintaining Ongoing Processes</i>					
18.	Ongoing	Review the implementation of the CPD program on ethics and continue to ensure that it provides practical guidance to auditors. Continue to prepare the CPD ethical educational curriculum according to the latest amendments to the IESBA Code of Ethics.	Ongoing	President of the Disciplinary and Education Committee	MKVK staff
19.	Ongoing	Continue to monitor the amendments to the IESBA Code of ethics as published by the IESBA. Identify issues which may require the publication of specific ethical guidelines. The CHA translated and made available the Hungarian version of the IESBA Handbook 2018 Edition in 2020. The CHA submitted a translation request and started the translation process of IESBA Handbook 2022 Edition, which is expected to be completed in Q3 2023. The CHA also submitted translation request for the separate final pronouncement of "Revisions to the Code Relating to the Definition of Engagement Team and Group Audits", which is expected to be completed by the end of 2023.	Ongoing	President of the Disciplinary Committee	MKVK staff
20.	Ongoing	Ensure that an up-to-date version of the Hungarian translation of the IFAC Code of Ethics is available on the website of MKVK. The CHA submitted a translation request and started the translation process of IESBA Handbook 2022 Edition, which is expected to be completed in Q3 2023. The CHA also submitted translation request for the separate final pronouncement of "Revisions to the Code Relating to the Definition of Engagement Team and Group Audits", which is expected to be completed by the end of 2023.	Ongoing	President of the Disciplinary Committee Translator group	MKVK staff
<i>Review of MKVK's Compliance Information</i>					
21.	Ongoing	Perform periodic review of MKVK's to SMO 4 as necessary.	Ongoing	President of the Education Committee	MKVK staff

Action Plan Subject: SMO 5 and International Public Sector Financial Reporting Standards (IPSAS)
Action Plan Objective: Promoting the Use of IPSASs

#	Start date	Actions	Completion Date	Responsibility	Resource
<p><i>Background:</i></p> <p>The government of Hungary and the State Audit Office of Hungary agreeing with other EU members keep the accrual-based accounting system essential to implement in public sector. Due to the difficulties in the transition of accrual-based accounting implementation Hungary currently does not apply and not plan to adopt the IPSAS in public sector. Although in 2013, the Ministry of National Economy issued Government Order No. 4/2013 to begin reforming public sector accounting. The legislation introduced new amendments and regulations to accompany the standards outlined in within Act C of 2000 on Accounting (the Accounting Act) for public sector entities. The reforms intended to transition public sector entities to an accrual-based accounting system that, according to the European Commission, align closely with the IPSAS. The European Commission - recognizing the limits in the IPSAS application- started the EPSAS project in 2013 to achieve a standard accrual-based approach for EU member states. Hungarian government monitors the experiences of other EU members due to the challenges in adoption of EPSAS standards.</p> <p>Until now the Hungarian government did not have any initiatives in this regard, therefore the translation of IPSAS has still not been put on the agenda of the MKVK, and we have no such future plans.</p>					
<i>Promoting the use of IPSASs</i>					
22.	Ongoing	Inform the Ministry about the work of the International Public Sector Accounting Standards Board and the IPSAS and offer support with any move to implement these standards.	Ongoing	President of the Experts' Committee	MKVK staff
<i>Maintaining Ongoing Processes</i>					
23.	Ongoing	Continue to inform the relevant ministry about the IPSAS work.	Ongoing	President of the Experts' Committee	MKVK staff
<i>Review of MKVK's Compliance Information</i>					
24.	Ongoing	Perform periodic review of MKVK's response to SMO 5 as necessary.	Ongoing	President of the Experts' Committee	MKVK staff

Action Plan Subject: SMO 6 and Investigation and Discipline
Action Plan Objective: Strengthening the Investigation and Discipline regime

#	Start date	Actions	Completion Date	Responsibility	Resource
<p><i>Background:</i></p> <p>The Act LXXV of 2007 on the Chamber of Hungarian Auditors, the Activities of Auditors, and on the Public Oversight of Auditors outlines the roles of the audit oversight entity—the Auditors’ Public Oversight Authority (the Authority) which operates under the Ministry of National Economy—and the professional accountancy organization—the Hungarian Chamber of Auditors (CHA) in regards to investigative and disciplinary (I&D) procedures of auditors. Disciplinary Committee submits the I&D procedure. The CHA may monitor the activities of its members, hear disciplinary cases, and take necessary measures upon discovery of any unlawful activity or conduct. The Authority is responsible for carrying out I&D procedures for auditors of public interest entities (PIEs) in addition to overseeing the disciplinary proceedings of the CHA.</p> <p>In disciplinary proceedings the Chamber is represented by the disciplinary commissioner. The disciplinary commissioner is vested with responsibilities to enforce the provisions of the relevant legal regulations, and the provisions of the Chamber’s statutes and rules of self-governance. The disciplinary commissioner conducts – possibly involving expert if necessary - the investigation. On completion of the investigation process, the disciplinary commissioner reviews the evidence and decides about initiating the disciplinary proceedings. Acting on the disciplinary commissioner’s initiative, the President of the Chamber orders the opening of the disciplinary proceedings in writing. The Disciplinary Committee will conduct-the disciplinary proceeding and impose sanctions as necessary. The disciplinary commissioner has no voting right in the decision-making process of the Disciplinary Committee</p> <p>Auditors, audit companies should be reported to the CHA Disciplinary Committee for violations of the audit profession rules of conduct (independence, conflict of interest, publicity, bidding, attitude towards clients, secrecy, failure to cooperate). The number of investigations performed by the committee was the following: 81, 350, 19 and 49 cases in 2019, 2020, 2021 and 2022, respectively. These cases related to failure to provide data to the chamber, failure to obtain the required CPD points, notifications from authorities, and results of quality reviews. The Committee has the authority to impose disciplinary sanctions on an auditor or audit firm. Sanctions range from reprimand, penalty (which may reach twenty times the auditor’s annual dues to CHA, or the contribution fee of an audit firm), withdrawal of qualification, permanent suspension (for at least 12 months) or exclusion. The Committee issues a decision on the disciplinary procedure for the auditor, audit firm. The auditor, audit firm may appeal against any disciplinary sanctions to the Presidium of the Chamber.</p> <p>The Head of the Disciplinary Committee submits the appeal to the second instance. The Presidium of the Chamber may overrule, accept, repeal and change the appealed decision. If the appeal is not successful, the auditor or audit company may challenge the Chamber Presidium’s ruling before ordinary courts within 30 days.</p>					
<i>Maintaining Ongoing Processes</i>					

#	Start date	Actions	Completion Date	Responsibility	Resource
25.	Ongoing	The Disciplinary Commissioner and the Disciplinary Committee inform the Presidium and the Meeting of Delegates about its work in writing. This written report is also published in our newspaper and on our website. https://www.mkvk.hu/szervezet/bizottsagok/felegymibizottsag/beszamolo	Ongoing	President of the Disciplinary Committee	MKVK staff
26.	Ongoing	The Committee continues to publish its observations and conclusions on a yearly basis, issues resolution, opinions or raises awareness, if needed.	Ongoing	President of the Disciplinary Committee	MKVK staff
27.	Ongoing	Continue to publish additional statistics and articles on investigation and discipline and disseminate them more broadly as this could strengthen public confidence in the regulation. Continue to raise awareness of professional commitment.	Ongoing	President of the Disciplinary Committee	MKVK staff
28.	Ongoing	Continue to publish on its website Q&As, opinions, independence issues, views and current aspects concerning breach of commitments and secrecy.	Ongoing	President of the Disciplinary Committee	MKVK staff
<i>Review of MKVK's Compliance Information</i>					
29.	Ongoing	Perform periodic review of MKVK's response to SMO 6 as necessary.	Ongoing	President of the Disciplinary Committee	MKVK staff

Self-assessment of Main Requirements of SMO 6

Requirements	MKVK's I&D System Yes (Y) No (N) Partially (P)	POA's I&D System Yes (Y) No (N) Partially (P)	Comments
Scope of the System 1. A system of investigation, discipline and appeals exists for the accountancy profession. The system is operational.	Y	Y	

Requirements	MKVK's I&D System Yes (Y) No (N) Partially (P)	POA's I&D System Yes (Y) No (N) Partially (P)	Comments
2. Information about the types of misconduct which may bring about investigative actions is publicly available.	Y	Y	
Initiation of Proceedings 3. Both a "complaints-based" and an "information-based" approach are adopted.	Y	Y	
4. Link with the results of QA reviews has been established.	Y	Y	
Investigative Process 5. A committee or similar body exists for performing investigations.	Y	Y	
6. Members of a committee are independent of the subject of the investigation and other related parties.	Y	Y	
Disciplinary Process 7. A separate disciplinary committee/entity exists to make disciplinary decisions on referrals from the investigation committee.	Y	Y	
8. Members of the committee/entity include professional accountants as well as non-accountants.	N	N	Members are professional accountants but involving expert is possible if necessary.
9. The tribunal exhibits independence of the subject of the investigation and other related parties.	Y	Y	

Requirements	MKVK's I&D System Yes (Y) No (N) Partially (P)	POA's I&D System Yes (Y) No (N) Partially (P)	Comments
Sanctions 10. The disciplinary system allows imposing an extensive range of penalties. It is particularly important to include (a) loss of professional designation; (b) restriction and removal of practicing rights; and (c) exclusion from membership.	Y	Y	
Rights of Representation and Appeal 11. A third appeals body exists which is separate from both the disciplinary committee and investigative committee.	Y	Y	
Administrative Processes 12. Timeframe targets for disposal of all cases are set.	Y	Y	
13. Tracking mechanisms to monitor progress in investigation and discipline and related procedures are established.	Y	Y	
14. Records of investigations and disciplinary processes are established.	Y	Y	
Public Interest Considerations 15. Activities are supported to ensure that the public is aware that an investigative and disciplinary system exists in the jurisdiction.	Y	Y	

Requirements	MKVK's I&D System Yes (Y) No (N) Partially (P)	POA's I&D System Yes (Y) No (N) Partially (P)	Comments
16. A process for the independent review of complaints on which there was no follow-up is established.	P	P	
17. The results of the investigative and disciplinary proceedings are made available to the public.	Y	Y	
Liaison with Outside Bodies 18. There is an appropriate process for liaison with outside bodies on possible involvement in serious crimes and offences.	Y	Y	
Regular Review of Implementation and Effectiveness 19. Regular review of implementation and effectiveness of the system are performed and corrective actions are implemented.	Y	Y	

Action Plan Subject: SMO 7 and International Financial Reporting Standards (IFRS)
Action Plan Objective: Continuing Use of Best Endeavours to Assist in Ongoing Adoption and Implementation of IFRS

#	Start date	Actions	Completion Date	Responsibility	Resource
<p><i>Background:</i></p> <p>Accounting and bookkeeping regulations are contained within Act C of 2000 on Accounting (the Accounting Act) and its statutes as issued by the Ministry for National Economy (MNE). The Accounting Act is in effect Hungarian GAAP. The MNE has harmonized accounting regulations with the EU regulations that require the application of IFRS as endorsed by the European Commission (EU-endorsed IFRS) for financial statements of companies whose securities trade in a regulated securities market and permitted optional application of EU-endorsed IFRS for consolidated accounts of all companies within the scope of the Accounting Act that do not trade in the regulated market. In 2015, the MNE issued a resolution that expanded the application of EU-endorsed IFRS to individual accounts of Hungarian companies. The implementation of the resolution was completed as follows: (i) effective January 2017, most financial institutions (i.e. those supervised by the Central Bank of Hungary, insurance companies, credit institutions); companies whose securities are traded in the European Economic Area (EEA) or whose parent company prepares its consolidated financial statements under IFRS and requires its subsidiaries to prepare IFRS financial statements; along with companies that are subject to mandatory audits must apply EU-endorsed IFRS; and (ii) effective January 2018, remaining financial institutions must apply EU-endorsed IFRS.</p> <p>All other companies must apply the Hungarian GAAP although they are permitted to use the EU-endorsed IFRS as supplemental financial statements. IFRS for Small- and Medium-sized Entities (SMEs) have not been adopted.</p> <p>Topics related to IFRS's are included in the CPD programs, are covered at the Chamber's annual conferences, in online course materials and at events organized by the Chamber's Financial Institution Section.</p>					
<i>Continuing Use of Best Endeavours</i>					
30.	11/2014	MKVK was represented in the working parties established by the Ministry for National Economy for the IFRS implementation.	Completed	President of the Experts' Committee	Ministry of Finance
31.	Ongoing	Cooperation with Ministry for National Economy and Supervision Authorities for the financial institutions on IFRS issues. In case of any issue the representative of Experts' Committee or the Authority initiates discussion.	Ongoing	President of the Experts' Committee	Ministry of Finance
32.	Ongoing	As soon as new standards are implemented or any are revised significantly, the Education Committee will incorporate them in the educational materials and CPD programs. IFRS9, IFRS15 and IFRS16 are included in the e-learning CPD program in 2018. Translation of IFRSs is performed by the Ministry of Finance, which has been an ongoing project in 2022, based on information	Ongoing	President of the Education Committee	MKVK staff

#	Start date	Actions	Completion Date	Responsibility	Resource
		available. We do not yet have information about the publication of translated updated IFRSs, but if the publication will happen, MKVK will inform its members about this fact. Last translation project that was published by the Ministry was the translation of Part B (Accompanying Guidance and IFRS Practice Statements) and Part C (Bases for Conclusions) of the 2018 version of IFRS standards publication.			
33.	Ongoing	Publish IFRS related technical issues in auditors' professional newspaper.	Ongoing	President of the Education Committee	MKVK staff
34.	Ongoing	Continue to draw members' attention to the amended standards and exposure drafts and supporting documents published by the International Accounting Standards Board (IASB) by publishing it on the MKVK's website, newsletter and newspaper.	Ongoing	President of the Experts' Committee	MKVK staff
<i>Review of MKVK's Compliance Information</i>					
35.	Ongoing	Perform periodic review of MKVK's to SMO 7 as necessary.	Ongoing	President of the Experts' Committee	MKVK staff