

János Szatmári – Lili Kakatics – Zoltán Gyula Szabó

Objectives, Methodology and Results of the Integrity Survey (2011–2013)

SUMMARY: In 2013 the State Audit Office of Hungary assessed the level of integrity in the public sector for the third time. The results of these surveys have shown that corruption risks in the institutions examined are mainly associated with the public procurements processes and the utilization of EU funds. The change in institutional structure, legal status and regulatory environment may present corruption risks in public sector institutions. Controls which are designed to manage risks deriving from their legal status are in place in most public sector institutions. However, the institutions have to take further steps to reduce the negative effects of factors increasing the risk of corruption (for example public procurement, EU funding). In Hungary the public sector institutions need to develop their controls in connection with conflict of interest, relations with external partners or cooperation with experts.¹

KEYWORDS: integrity, risk assessment, public administration, corruption

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The State Audit Office of Hungary (hereinafter: SAO) assessed the corruption risks and the level of controls designed to handle them in the public sector for the third time in 2013. The main objectives of the Integrity Project are to prevent corruption as well as to develop and promote an organisational culture based on integrity values. Some 1,500 organisations participated in the 2013 survey of which almost 1,300 agreed to help achieve the goals set by SAO's Integrity Project in the subsequent years of the survey. This high level of support provided by the budgetary institutions particularly justifies a detailed presentation of the integrity survey with special regard to its goals, methodology and the main dilemmas that have arisen during its development and implementation. We will briefly present the overall results of the survey and call attention to some correlations

which fundamentally determine the corruption risk level in the public sector as reflected in the results of the 2013 survey. Finally, we will show the correlation between risks and controls.

THE ROOTS OF THE PROJECT: ADAPTATION OF THE DUTCH APPROACH

The State Audit Office of Hungary, with the collaboration of the Netherlands Court of Audit, became familiar with the internationally recognised Dutch approach of corruption risk assessment and analysis which enforces the requirements of the integrity-based operation of public administration between 2007 and 2008 as part of an EU twinning project, and launched the Integrity Project in 2009 on the basis of the experience gained.²

The essence of the Dutch approach focusing on integrity is that by using the established

E-mail address: szatmarij@asz.hu

methodology it identifies the inherent risks in the organisation, the factors that increase the risks as well as the system of integrity management in place and its efficiency (controls). The values for the inherent risks and the risk-increasing factors are merged into a single index, which is then compared with the adequacy and efficiency of the integrity management system. In this way the protection level of the given organisation is determined.

THE OBJECTIVE OF THE INTEGRITY PROJECT

When discussing the goals of the series of integrity surveys conducted by the State Audit Office of Hungary, we should not ignore the role played by the SAO in controlling corruption in Hungary.³ The SAO's anti-corruption activities focus on the following areas.

THE PREVENTION OF CASES OF CORRUPTION by exploring the causes leading to corruption, developing new audit methodologies for the SAO, promoting the accountable and transparent operation of public finances and, in line with the requirements of integrity, by disseminating an organisational culture that places value-based operation at its centre.

WITHIN THE FRAMEWORK OF ITS AUDITS THE SAO, using compliance audits, evaluates the operation of the institutional solutions (control systems) and their compliance with legal regulations.

IN ITS ADVISORY ROLE, THE STATE AUDIT OFFICE OF HUNGARY is primarily concerned with assisting the government and judiciary in developing the most effective anti-corruption policies as well as in implementing optimal regulating and institutional solutions in relation to them.

In the spirit of the objectives set out in the above, the SAO undertook to carry out an integrity survey⁴ up until 2017 in the public sector on an annual basis during the maintenance

phase of the Integrity Project which was concluded in 2012. The 2013 integrity survey was conducted as part of this undertaking.

The aim of the Integrity Project is to assess the exposure of public sector institutions to corruption risks as well as the level of controls designed to reduce such risks. Through this project the State Audit Office of Hungary wishes to promote the integrity approach and its practical application as well as the fight against corruption based on prevention and risk-based thinking in as wide a range of organisations as possible. The SAO defined the fight against corruption and the promotion of an administrative culture which favours organisational operation in line with integrity requirements as objectives of strategic significance which also apply to itself. The project provides a kind of 'mirror image' for the institutions participating in the survey, which could provide a basis for their future positive development. The SAO also utilises the survey results in risk analyses serving as the basis for SAO audits. Overall, integrity surveys strengthen conformance to public and transparency norms as expected by society, facilitate the anti-corruption activities of government bodies and contribute to the development of an integrity-based culture of public administration. One of the most important aims of the current maintenance phase of the project is to continue the series of surveys begun earlier. The experience gained over the past few years shows that, through the completion of the questionnaire, budgetary institutions become conscious of the corruption risks which threaten them and, as a result, pay more attention to preventing such corruption risks and to establishing and operating controls which reinforce integrity.

At the same time, it is not a goal of the present study to assess the approach, knowledge and perceptions of officials in public organisations with regard to corruption. It aims to

identify those risks which could damage the integrity of those bodies examined.

DILEMMAS ARISING DURING THE INTEGRITY PROJECT

In the next section we will present the dilemmas which arose during the elaboration of the methodology and following the individual surveys. Prior to the first data recording the main goals of the project had to be declared, two of which, the prevention of corruption and the development and promotion of an integrity-based administrative culture, determined the methodology. Before 2011 there were two ways for the audit office staff and the external experts working on the Integrity Project to assess corruption risks. They had to decide whether to use an examination-based or a non examination-based method⁵ to determine corruption risk levels in the public sector. The experts decided on the former method because the goal of changing organisational culture necessarily presupposes a sort of communication between the audit office experts involved in the research and the administrative bodies, which could only be ensured by an examination-based method.

It was essential to determine what tool was best for the examination of corruption risks in the public sector and the adequacy of the controls designed to manage these. Among several available tools, the standard questionnaire method seemed to be the most suitable, as it “provides relatively little room for the organisations to express subjective judgments.” The final version of the questionnaire – in line with the practice used in social science research – was based on the experiences of in-depth interviews and then paper-based trial questionnaire⁶ The questionnaire had to include question types (such as dichotomous questions) which give the least possible room for subjective opinions.

Several questions arose in connection with determining the size and content of the questionnaire (for instance the number and content of question groups). First of all those areas of activity for which questions could be formulated had to be determined in order to identify the risks. Next the specific questions had to be formed which were sufficient to characterise the given areas effectively. After defining the minimum number of questions required, each question had to be scored, that is, the significance of the given risk or control had to be calculated. The questionnaire had 155 questions at the time of the first official enquiry, but other versions of the questionnaire were also tested which had less or significantly more questions than the current one. The scoring of the answers to each of the questions was the subject of professional debate.

One of the questions arising in connection with the definition of the target groups was which institutions should be invited to complete the integrity questionnaire. It was obvious that it was impossible to include all the budgetary institutions (about 12 thousand institutions) in the data collection, so the organisations were invited to participate in Project Integrity in the following way:

- every central administrative authority was invited to complete the questionnaire, as their number is relatively low;
- we used a layered, randomised sampling method to select the organisations from the local administrative authorities.

Another question regarding the target group was how each institution could be identified and on the basis of what criteria the invited organisations could be classified. We used the registration IDs (PIR) of the Hungarian State Treasury and the tax codes to identify the organisations and the NACE numbers in creating the groups.

Another question raised before the first official survey was whether the institutions invited

to supply data should complete the questionnaire sent to them on a voluntary or mandatory basis. Again the goal of changing organisational culture came to our aid in deciding on the issue. The active support of the organisations in the public sector is required for the development of an integrity-based administrative culture, which could not be accomplished by making the completion of the questionnaires mandatory. In addition, if the organisations were obliged to complete the questionnaire, we would have to explain why the organisations selected partly by a randomised sampling method were made to participate in the survey. On the other hand, by making participation voluntary we can ensure that the respondent organisations delve deeply into the questions when completing the questionnaire or even take real steps to increase their level of protection by identifying a previously unknown risk.

In light of the experiences gained during the 2011 and 2012 data recording we had to reconsider some old dilemmas and the answers proposed for them, and were also faced with new methodological issues. One of the most important problems was caused by voluntary participation, as the size and the composition of the respondent groups in the two survey years were completely different, so the comparison of the results collected in the two survey years proved to be quite a challenge. The audit office experts continued to agree that the voluntary nature of the survey had to be preserved, but the stability of the respondent groups had to be ensured in some way so that the results of each survey year could be compared. Consequently the organisations participating in the 2013 survey were asked to cooperate for several years. 93 per cent of the respondent organisations agreed to complete the integrity questionnaire in each of the next five survey years. We hoped that with this solution we would be able to preserve the voluntary nature of the survey and also create the

continuity required for the comparison of the results of each survey year.

As far as the indices were concerned, several questions were raised specifically regarding the interpretation, communication and, in particular, the effect of the index which measured the lack of controls. The indices only show vulnerability, which did not help increase the number of organisations wishing to join the survey. Among other reasons this is why the focus of the third index had to be shifted from missing controls to the existing controls. The modified index was able to shed light on the positive features related to controls of the institution completing the questionnaire. In theory controls must be matched against risks rather than their absence evaluated as a new risk.

The experiences gained over the course of the two surveys also shed light on the problems of interpreting the previous indices, as they were given in absolute numbers. Interpreting the results was made more difficult by the use of different point scales in each index, which is not surprising, given that the number of factors identified as increasing vulnerability was higher than that of the inherent risks. In order to make the interpretation of the index values easier, we introduced a percentage-based method to express the indices before the 2013 survey. This solution both finds a common denominator for the indices and preserves the material differences between each index.

Another problem was how the institutional indexes could be qualified. The qualification could have been carried out with the aid of a simple percentage scale. We could have said, for instance, that if an organisation's risk-increasing factor is above 80 per cent it has a high risk value or if the controls index of an institution falls between 60 and 80 per cent its controls can effectively manage the risks stemming from its legal status and activity. At the same time, in view of the heterogeneous nature of the respondents,

the use such a measure would have been too rigid. The organisations participating in the survey come from groups of institutions such as nurseries, kindergartens, schools, universities, local governments or ministries). In addition, a measure like this would not have been able to reflect the constantly changing system of public administration. Therefore, it appeared to be more expedient to define several flexible reference points which take the special features of the groups of institutions into account. Accordingly, we calculated average indices (institution group indices) separately, on the basis of the institutional indices, for the 18 groups of institutions (levels) which were defined during the survey and could serve as a reference point for the assessment of individual institutional values. On the basis of a positive or negative deviation from the institutional group index it was possible to evaluate the risk and control level of an organisation belonging to a given group.

THE METHODOLOGY APPLIED IN THE 2013 SURVEY

The sample used in the survey, the identification of the respondent institutions and the creation of the groups of institutions

The third round of the survey took place between 23 May and 5 July 2013. Of the nearly 12,000 budgetary institutions operating in the country, 6,104 were invited electronically or through the so-called Official Gate System to complete the electronic questionnaire for the measurement of their corruption risks on a voluntary basis.⁷

Similarly to the data recordings of the previous years, the address list of the target groups in the 2013 survey contained the data (relevant for the survey) and the contact information of the institutions recorded by the Hungarian State Treasury (hereinafter: MÁK).

On the basis of this the letters of request were sent via the IT system which supports the survey and the questionnaires coming in to the system were also identified on the basis of the data contained in this list. The participating institutions were also classified into 18 institution groups on the basis of the NACE codes recorded in the MÁK database, which indicate the public finances sectoral codes of the institutions' core activity.

In the 2013 survey organisations in the target group were invited on the basis of the institutional range selected by way of layered sampling during previous data recordings. In addition, since a very large number of local governments and mayor's offices but a relatively small number of other local government institutions responded positively to the invitation to previous surveys, in this survey more primary schools, kindergartens, nurseries and other education, social and cultural institutions were selected in order to improve their representation.

The questionnaire

As mentioned before, we used the standard questionnaire method for data recording, as this tool can best ensure the objectivity of the survey. Accordingly, the following types of questions were used in the questionnaire:

- yes-no or dichotomous;
- single choice;
- multiple choice questions, and
- questions for which the respondent institution should provide data expressed in some unit of measure (million HUF, persons, pieces).

Most of the questions are dichotomous (yes-no) questions, which were supplemented with a 'cannot be interpreted' option in some cases in the 2013 survey (where the specific institutional features required this). Most of the questions inquired about the last three years,

meaning calendar years. The 2013 survey covered the period between 1 January 2010 and 31 December 2012.

The scoring system was established prior to the initial data recording period by an expert working group comprising both associates participating in the project implementation and external experts. Each question in the survey – in accordance with its significance – was classified using a scale of 0 to 3 points with an increment of 0.5 points. As an example, let us look at how some of the questions in the 2013 questionnaire were scored, shown in *Table 1–3*.

As can be seen in Table 1, the ‘yes’ answer to the dichotomous question was given 3 points, and the ‘no’ answer 0 points. By giving a ‘yes’ answer to the question, the institution both identified one of the risks arising from its activity and increased its risk score by 3 points, which was the basis for the calculation of the risk index (EVT, KVNT).

The questions presented in Tables 1 and 2 jointly illustrate how the difference between the significance of each question is shown in the scoring. The data show that the maximum number of points which can be earned for the previous question is 3, while for the question in Table 2 it is only 2. The question with a higher score (3 points) may have a stronger weight in the calculation of the index than the latter one (with 2 points).

As a last example, the question presented in Table 3 shows how the entire scoring scale was used for question types where the respondent organisation itself had to provide the data in the relevant unit of measure.

The processing of the questionnaires and the indices derived from them

The selected organisations are requested to complete the questionnaire in an email sent via the Geospatial Integrity Information Sys-

tem (TiiiR) which was developed as part of the Integrity Project. The organisations can download the electronic questionnaire as well as the related guide and manual on the Integrity Portal and provide the data using the General Form-filling Framework Programme (ÁNYK). The questionnaires completed by respondent budgetary institutions are returned via the SAO’s document management system to the TiiiR, a data processing application, which automatically loads the electronically received response data into a database and then calculates complex indicators (vulnerability indices) from them using previously determined mathematical algorithms. Using geospatial information methods, the TiiiR also displays the risk indices on an online platform (risk map). In addition to the risk indices calculated by the TiiR, the data and the correlations presented in the analysis are examined using IBM’s SPSS statistical analysis software.

The TiiR IT system calculates three risk indices from questionnaire data:

THE INHERENT VULNERABILITY FACTORS (EVT) index is designed to measure the inherent vulnerability components that depend on the legal status and responsibilities of organisations. The index is defined by factors whose formation falls within the legislative authority of the founding body, such as (legal) regulation, application of law by the authorities or the provision of various (educational, healthcare, social and cultural) public services.

THE FACTORS ENHANCING CORRUPTION VULNERABILITY (KVNT) index captures the components that increase inherent vulnerability and depend on the daily operation of the various institutions. It maps the characteristics of the legal/institutional environment of budgetary institutions, the predictability and stability of their operation, as well as variable factors—impacted by the decisions made by current management—that arise during the operation of institutions, such the management of hu-

Table 1

Does your organisation, or its head, exercise any power directly connected to legislation?	
Yes	3 points
No	0 points

Table 2

Did the laws applicable to your organisation’s legal status or independence as a body change materially in the last 3 years?	
Several times	2 points
Once	1 point
Never	0 points

Table 3

Number of full-time staff employed at the organisation at the end of the previous year: persons	
Fewer than 11 persons	0.0 points
11–20 persons	0.5 points
21–40 persons	1.0 point
41–100 persons	1.5 points
101–250 persons	2.0 points
251–500 persons	2.5 points
More than 500 persons	3.0 points

Source: State Audit Office of Hungary

man and budgetary resources and public procurements.

THE RISK-REDUCING CONTROLS FACTORS (KMKT)⁸ INDEX reflects whether the given organisation has institutional controls in place, and whether these controls actually work and fulfil their objectives. This index includes factors such as the internal regulation of the organisation, external and internal auditing, as well as other integrity controls: defining ethical requirements, managing situations involving conflicts of interest, handling reports and complaints, regular risk analysis and conscious strategic management. The number of questions for each index and the maximum points attainable for answering these questions are shown in *Table 4*.

We included 30 questions for the Inherent Vulnerability Factors, 64 questions for the Increasing Corruption Vulnerability Factors, and 61 questions for the Risk-Reducing Controls actors. *Table 5* shows the distribution of questions by index and question group.

The change in the direction of the indices from the method of measuring the lack of controls in earlier surveys compared to the 2013 survey, which focused on the existence of controls and measured the level of controls in a given organisation rather than extent of the gap, represented a major change.

Table 6 presents the formulas that were used for the calculation of an institution’s indices.

The findings of the survey can be generalised for the entire domestic public sector only

Table 4

NUMBER OF QUESTIONS AND THE MAXIMUM POINTS ATTAINABLE FOR ANSWERING THESE QUESTIONS PER INDEX

Index names	Index maximum values	Number of questions per index
Inherent Vulnerability Factors	70 points	30
Factors Increasing Corruption Risks	148 points	64
Risk-Reducing Controls Factors	113 points	61

Source: State Audit Office of Hungary

to some extent, given that the published data were composed on the basis of the answers provided by the institutions participating in data recording. The criteria for the selection of the institutions included the intention to

make the sample representative, but the ratio of responses was very different for each institution group; therefore, the questionnaires received cannot be regarded as a representative sample of the entire public sector.

Table 5

DISTRIBUTION OF QUESTIONS BY INDEX AND QUESTION GROUP IN THE 2013 INTEGRITY QUESTIONNAIRE (PCS)

Number	Name of question group	EVT (pcs)	KVNT (pcs)	KMKT (pcs)	Σ:
I/1	European Union Funding		7		7
I/2	Public Procurements		12	2	14
I/3	Scopes of authority	18	2		20
I/4	Management of public assets and public funds	1	5		6
I/5	Provision of public services	2	3		5
I/6	Other risk factors	2	2		4
II/1	External control environment	3	2	1	6
II/2	Organisational structure	1	5		6
II/3	Organisational culture, organisational values		1	4	5
II/4	Operational characteristics		8	5	13
II/5	Political environment		2		2
III/1	Level of internal regulation		1	21	22
III/2	HR management characteristics	3	5	11	19
III/3	Internal audit functions and methods			9	9
III/4	Special anti-corruption systems and procedures		2	8	10
III/5	Level of external control		7		7
Total		30	64	61	155

Source: State Audit Office of Hungary

FORMULA FOR CALCULATING THE INDEX FOR ONE INSTITUTION

Inherent Vulnerability Factors (%)	$\frac{\sum \text{evt}(i)_{\text{attained scores}}}{\sum \text{evt}(i)_{\text{max scores}}} \times 100$ <p>i=1 to 30 (number of questions grouped under EVT)</p>
Factors Increasing Corruption Risk (%)	$\frac{\sum \text{kvnt}(i)_{\text{attained scores}}}{\sum \text{kvnt}(i)_{\text{max scores}}} \times 100$ <p>i=1 to 64 (number of questions grouped under KVNT) kvnt(i)_{max} cannot be interpreted</p>
Risk-Reducing Controls Factor (%)	$\frac{\sum \text{kmkt}(i)_{\text{attained scores}}}{\sum \text{kmkt}(i)_{\text{max scores}}} \times 100$ <p>i=1 to 61 (number of questions grouped under KMKT) kmkt(i)_{max} cannot be interpreted</p>

Source: State Audit Office of Hungary

DATA ON PARTICIPATION DATA IN THE INTEGRITY SURVEY IN THE LIGHT OF THE PAST THREE SURVEYS

During the 2013 integrity survey 6,104 institutions were invited to participate. Of these 1,501 institutions completed and returned the questionnaire. Of the questionnaires returned, the TiiiR⁹ system was able to accept 1,462 data sheets for assessment and which served as basis for the study¹⁰. Compared to 2012 and 2011 participation data, the number of institutions taking part in the 2013 survey shows a 46.1% and 33.5% increase respectively, as shown in *Table 7*.

Similarly to the previous two years, the ratio of local government was the highest in the 2013 survey also (46 per cent): 670 institutions from 1,462 respondents (in 2011 and 2012, the number of participating local governments was 530 and 591 respectively).

Since the integrity survey was carried out in 2013 for the third time, comparing the results with those of the previous data recordings reveals the changes and processes that affect

the public sector organisations, providing information on their direction and their effect on the structure and operation of the institutions. Knowing these tendencies is important even though – as we can see in the data recordings of the previous three years – the composition of the respondent sample shows significant variance.¹²

RESULTS OF THE INTEGRITY SURVEY

The development of the Inherent Vulnerability Factors (EVT) index between 2011 and 2013

In light of the fact that the range of institutions participating in the 2013 survey changed extensively compared to preceding years, in the interest of the comparability of results, we calculated the 2013 comprehensive indices (EVT, KVNT, and KMKT) by weighting 2013 institution group partial indices with 2012 participation data. Based on this we can determine that the level of inherent corrup-

Table 7

NUMBER OF RESPONDENT INSTITUTIONS PER INSTITUTION GROUP IN THE 2011–2013 DATA RECORDING

Institution groups	2011		2012		2013	
	no. of institutions	per cent	no. of institutions	per cent	no. of institutions	per cent
Local governments	530	48.4	591	59.0	670	45.8
Nurseries, kindergartens	14	1.3	5	0.5	147	10.1
Primary schools	86	7.9	50	5.0	135	9.2
Institutions providing social services	69	6.3	34	3.4	82	5.6
Other administrative institutions	39	3.6	26	2.6	74	5.1
Defence and law enforcement	67	6.1	51	5.1	63	4.3
Secondary schools	81	7.4	36	3.6	61	4.2
Healthcare institutions	48	4.4	40	4.0	54	3.7
Cultural institutions	40	3.7	22	2.2	50	3.4
Regional administrative bodies	32	2.9	68	6.8	24	1.6
Judicature	13	1.2	17	1.7	23	1.6
Higher education	8	0.7	15	1.5	22	1.5
Sports and recreational institutions	9	0.8	1	0.1	15	1.0
Scientific research and development	13	1.2	7	0.7	12	0.8
Other education	6	0.5	0	0.0	10	0.7
Government bodies ¹¹	36	3.3	29	2.9	8	0.5
Independent government bodies	4	0.4	8	0.8	6	0.4
Other institutions	0	0.0	1	0.1	6	0.4
Total:	1095	100.0	1001	100.0	1462	100.0

Source: State Audit Office of Hungary

tion risks in 2013 is just slightly over the data recorded in 2012. The 2013 EVT indicator is essentially equal to the averages of the 2011 and 2012 indices (46.2). The development between 2011 and 2013 of the average value of the EVT index calculated for all respondent institutions is shown in *Table 8*.

Chart 1 shows that the average value of inherent risk decreased in 9 out of the 18 institution groups, while the index increased for six of them, showing higher inherent risk. Government, regional and other administrative bodies as well as local governments exhibited

a significant change. The change in the case of the government and regional administrative bodies may have been due to the structural changes that took place in the years prior to data recording. In addition, the values of the indices may have been influenced by the reclassification of the institution groups. This is especially true for government bodies because this group, contrary to previous years, only contained bodies performing ministerial activities which have high inherent risks by their very nature. The complex tasks of the newly created government offices in the regional

Table 8

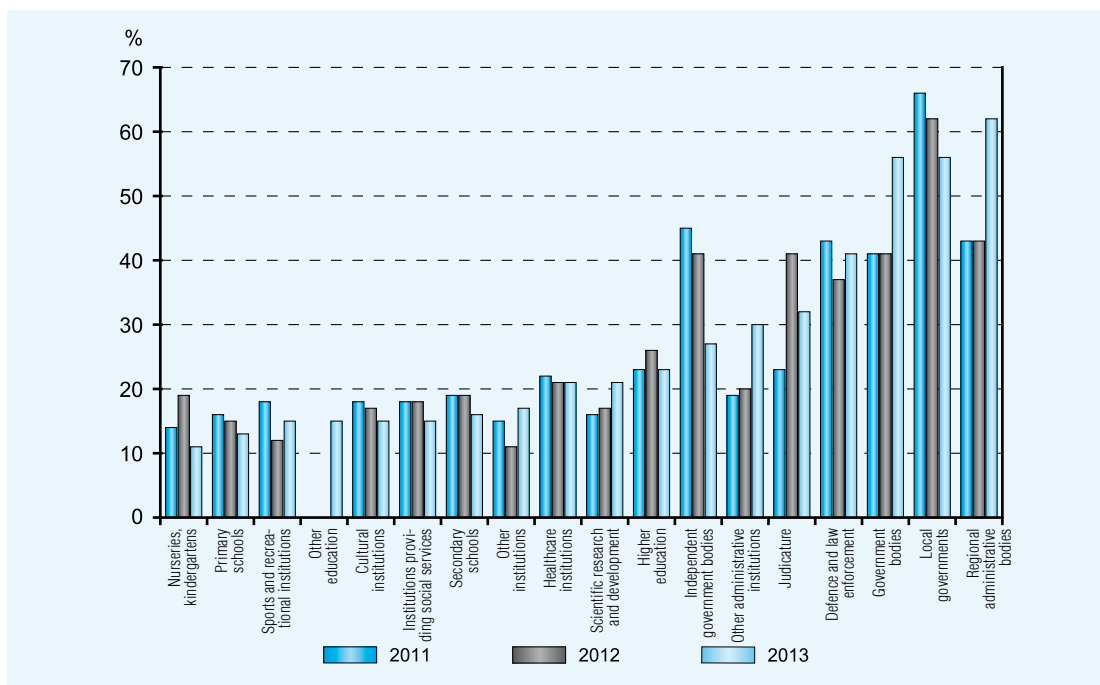
THE DEVELOPMENT BETWEEN 2011 AND 2013 OF THE AVERAGE VALUE OF THE EVT INDEX CALCULATED FOR ALL RESPONDENT INSTITUTIONS

2011	2012	2013 ¹³
47.83	44.62	46.01

Source: State Audit Office of Hungary

Chart 1

AVERAGE VALUES OF EVT PER INSTITUTION GROUP BASED ON 2011–2013 DATA RECORDING (%)



Source: State Audit Office of Hungary

administrative group may have caused the increase of the EVT value and simultaneously the lower value of the local governments.

It is important to note in connection with the inherent vulnerability factor that according to the results of the 2013 data recording, similarly to 2012, the indices of seven institution groups were above the average value, while in 2011 only four groups exceeded the average. There are significant fluctuations between the EVT values of each survey year in the case of judicial bodies, which may be due

to the structural changes introduced in the institutional system of the judiciary.¹⁴ This is supported by the risk-increasing factor for judicial bodies which did not change considerably over the surveys.

The highest inherent risk in the judiciary stems from the complexity of the external regulatory environment. 34.8 per cent of the respondent organisations consider the regulations applicable to judicial bodies complicated and 60.9 per cent of them think they are average in terms of complexity.

The EVT index of the regional administrative bodies group, which mainly comprises government offices in the capital and the counties, is higher than the value calculated for the local governments in the 2013 survey. In the previous two surveys, it was always the local governments that had the highest inherent risk index. The change is shown in *Chart 2*.

The rearrangement of infringement authority powers clearly demonstrates the changes in powers between regional administrative bodies and local governments. These powers were transferred from local governments to county government offices. While in 2011 86.7 per cent and in 2012 83.1 per cent of the respondents said that they exercised infringement authority powers, this ratio fell to 29.9 per cent in the 2013 survey. The rearrangement of powers is shown in *Chart 3*.

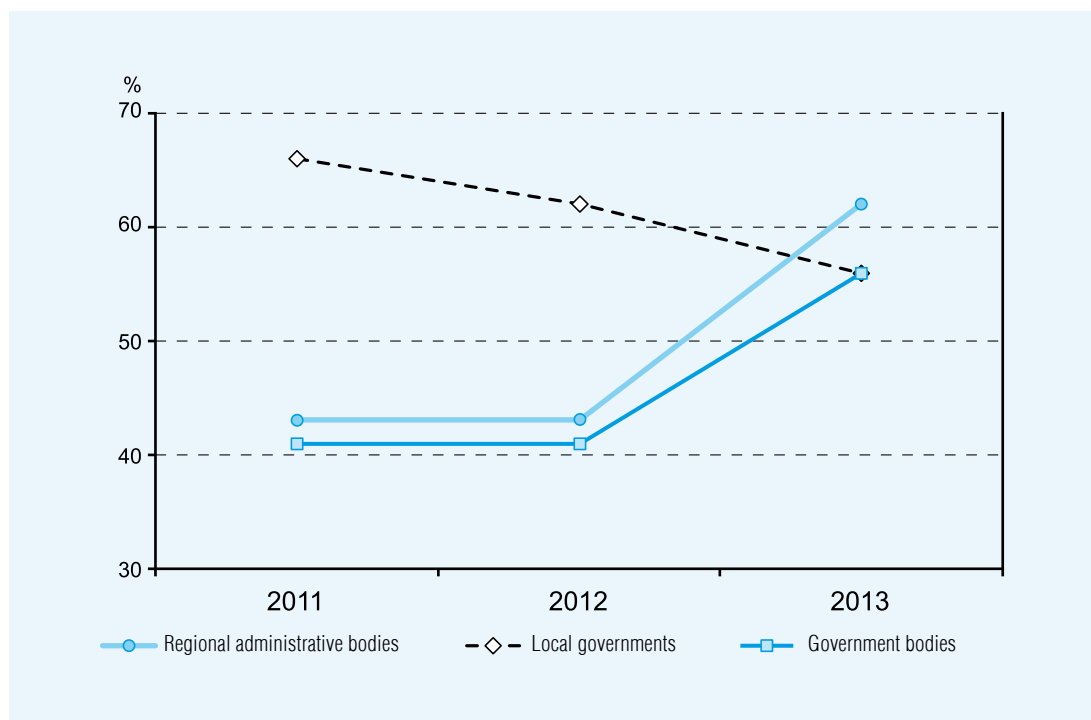
The development of the Factors Increasing Corruption Vulnerability (KVNT) index between 2011 and 2013

The KVNT indices made comparable¹⁵ show that the average KVNT level increased by more than 5 percentage points. The increase of the index average is in line with the fact that the value of KVNT is higher than the 2012 levels for all institution groups. (*see Table 9*).

When comparing the index value by institution types with the results of the previous years it can be seen that it increased significantly among government bodies, regional administrative bodies, scientific research and development institutions, as well as defence and law enforcement organisations. The comparison of annual EVT and KVNT values per institution group shows that it is essentially

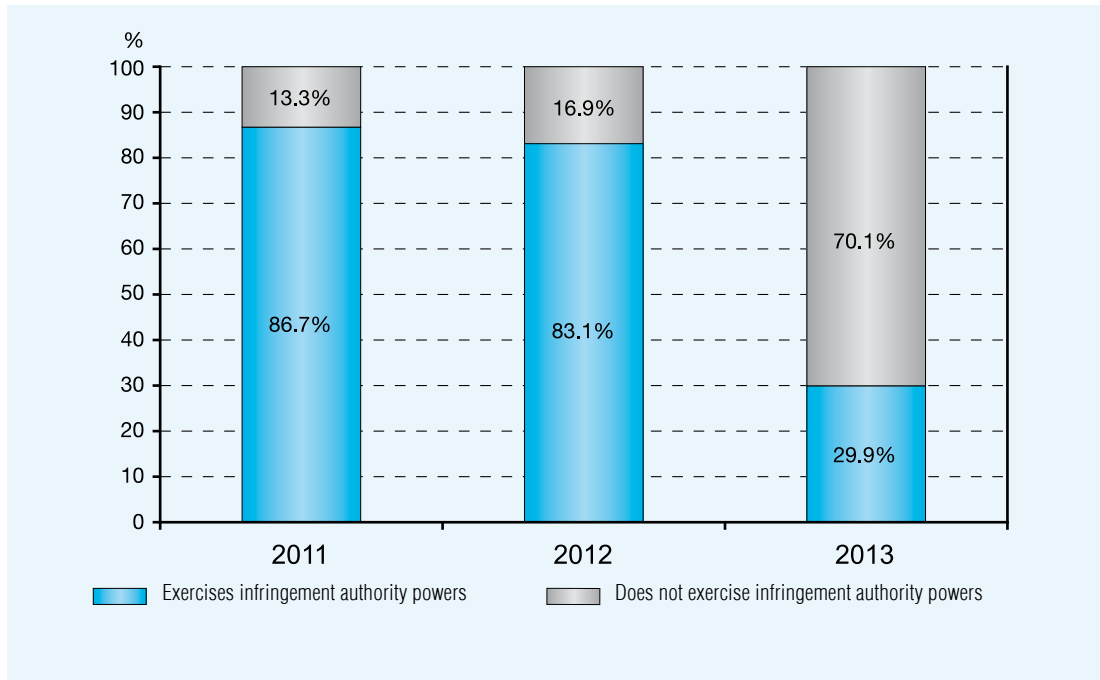
Chart 2

CHANGES IN THE EVT VALUES OF REGIONAL ADMINISTRATIVE BODIES, LOCAL GOVERNMENTS AND GOVERNMENT BODIES BETWEEN 2011 AND 2013 (%)



Source: State Audit Office of Hungary

DISTRIBUTION OF EXERCISING INFRINGEMENT AUTHORITY POWERS BY THE RESPONDENT INSTITUTIONS ACCORDING TO THE DATA RECORDED IN 2011–2013



Source: State Audit Office of Hungary

the same institution groups which produced a significant change. The reasons presented previously for the inherent vulnerability factor also apply to the KVNT in the case of government and regional administrative bodies.

Similarly to the values of previous data recordings, higher education (52 per cent) has the highest risk index, followed by government bodies (44 per cent) and regional administrative bodies (37 per cent). The average KVNT values per institution group are shown by *Chart 4*.

The factors increasing corruption risks raised the corruption vulnerability of nurseries and kindergartens (13 per cent) and primary schools (15 per cent) to the least extent in the 2013 survey period.

The increase in the index was due, among other things, to the rise in the number of institutions receiving EU support. Their ratio increased in nearly every institution group in 2013, which is presumably due to the higher number of available grants announced as well as the better skills acquired for preparing grant

Table 9

THE DEVELOPMENT BETWEEN 2011 AND 2013 OF THE AVERAGE VALUE OF THE KVNT INDEX CALCULATED FOR ALL RESPONDENT INSTITUTIONS

2011	2012	2013 ¹⁶
26.12	22.42	27.77

Source: State Audit Office of Hungary

applications. The number of institutions participating in public procurement procedures that exceed the EU limit also increased, as did the number of applicants reprimanded by the Public Procurement Arbitration Board or a court. In addition, there was an increase in the number of institutions which, for some reason, did not apply the provisions of the Public Procurement Act in spite of the fact that the procurement value exceeded the public procurement limit.

The development of the Factors of Risk-Reducing Controls (KMKT) index between 2011 and 2013

The value of the KMKT calculated for all respondent organisations participating in the

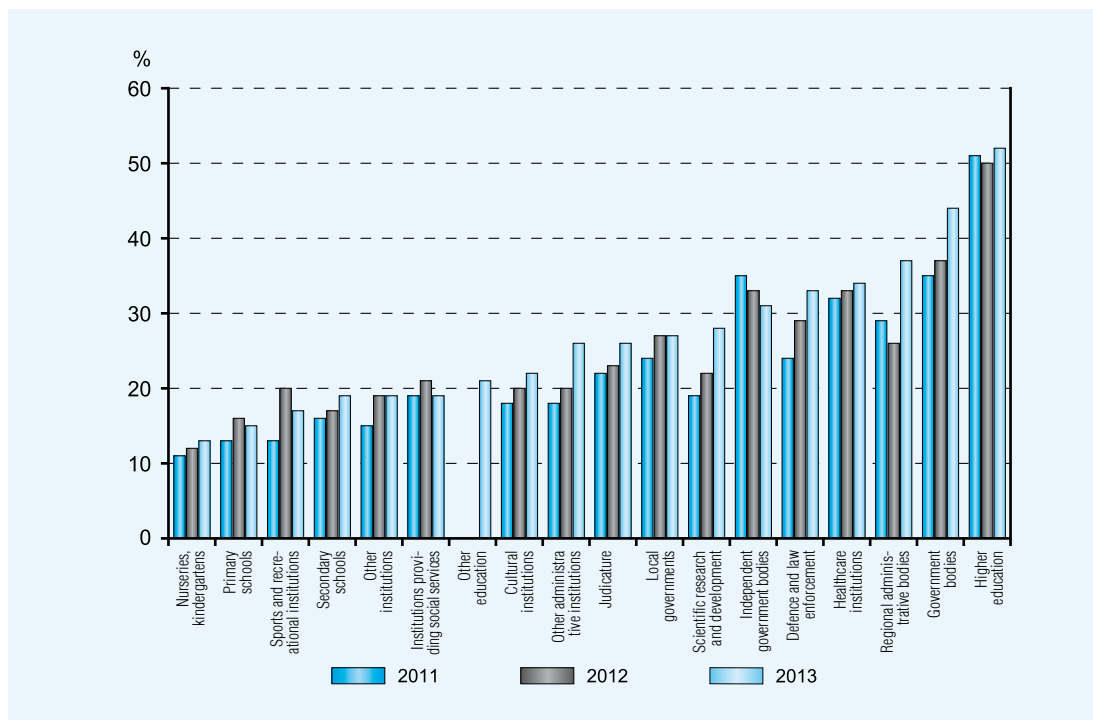
2013 survey, weighted with the 2012 participation data is 62.79, shown in *Table 10*.

One of the changes in the methodology of the 2013 survey was that we changed the direction of the index that measured the lack of controls in the data recordings of the previous years and instead we measured the level of existing controls. As a result of the change in the measurement direction of the index, the comparison of 2013 index values per institution group with those of previous years has become more difficult. This is why we found it expedient to compare the rankings of various years that were generated based on indices per institution group, thus ensuring continuity between new and earlier values.

On the basis of the three data recordings it can be established that the independent government, judiciary, defence and law en-

Chart 4

AVERAGE VALUES OF KVNT BY INSTITUTION GROUP BASED ON 2011–2013 DATA RECORDING (%)



Source: State Audit Office of Hungary

DEVELOPMENT OF THE AVERAGE VALUES, CALCULATED FOR ALL RESPONDENT INSTITUTIONS, OF THE FACTORS OF RISK-REDUCING CONTROLS (KMKT) AND VULNERABILITY DUE TO LACK OF CONTROLS (KHKT) BETWEEN 2011 AND 2013

Year	2011	2012	2013 ¹⁷
KMKT average values	–	–	62.79
KHKT average values	31.53	33.88	–

Source: State Audit Office of Hungary

forcement, higher education, government and regional administrative bodies had above-average controls in place in all three survey years. Institutions specialising in scientific research and development were able to join this group in 2012. In addition to the above institutions, mention should be made of the healthcare institutions, which had above-average controls in 2013 according to the survey results.

The index was positively influenced by the increase in the ratio of institutions with publicly disclosed strategies, as well as the ratio of organisations with a strategy for fighting against corruption or improving their organisational culture. The higher ratio of institutions with regulations for the employment of external experts and a code of ethics also had a positive influence.

Correlations between risks and controls

In order to determine whether there are any correlations between the corruption vulnerability level of a given institution group and the progression of the levels of existing controls, we separately compared the EVT and KVNT indices per institution group with their KMKT index numbers. We then placed the indices of the various institution groups next to each other in increasing order. In order to illustrate correlations, we assigned a linear trend line to each index. These lines

illustrate to what extent the EVT and KVNT indices move together with KMKT index numbers.

Based on 2013 survey data, during the comparison of index values calculated for the various institution groups, we can observe a tendency where the level of existing controls adapts to higher risk values. This is true for both the relationship of the inherent vulnerability index and risk-reducing controls, and that of the factors increasing vulnerability and risk-reducing controls. In other words, the control factors applied by the organisations match the corruption risk levels arising from the activity defined by the legislator and carried out in connection with the function. The lines featured in the next charts (particularly in the cases of the KMKT and the KVNT) illustrate the correlation between the two factors. With the majority of institution groups examined, in the case of the aforementioned index numbers, the rate of vulnerability and the level of controls that serve to manage these vulnerabilities increase at a near identical rate, in other words, higher corruption risks are accompanied by a higher level of controls. At the same time, the control level of certain institution groups does not fit the trend, as the level of controls in place is lower than expected compared to the level of risks. The correlations between the indices can be seen in *Charts 5 and 6*.

LINKING THE RISKS AND CONTROLS RELATED TO PUBLIC PROCUREMENT (ILLUSTRATIVE EXAMPLE)

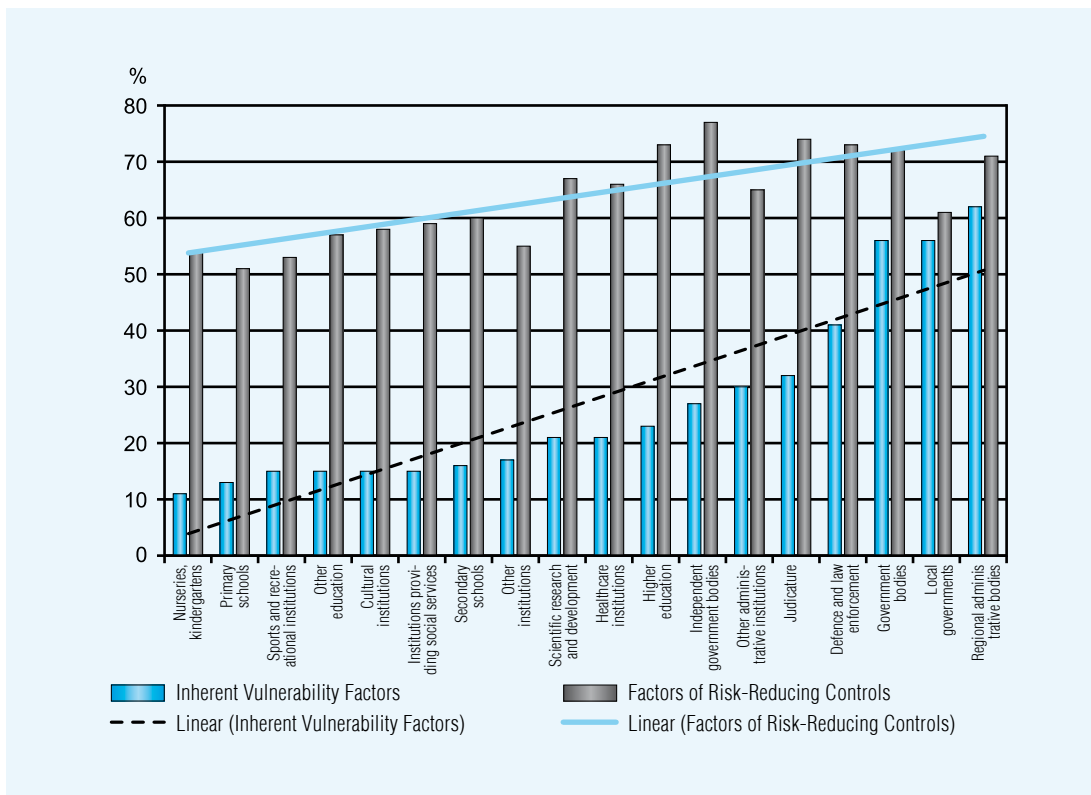
The next example is used to illustrate the linking of the questions on risks and controls. We show how conclusions can be drawn by mapping the questions on risks and controls with one another.

Let us take a closer look at public procurement in terms of controls out of the activities that increase corruption risks. 55.5 per cent of all the respondent institutions (812 organisations) said that they had participated in the preparation and implementation of public procurement procedures in the past 3 years. The risks for 301 institutions were further increased by the fact that the value of pub-

lic procurement reached the EU limit. There is a correlation between the number of tendering organisations that conducted a public procurement procedure with less than three bidders in the past three years and the number of audit organizations that supervised the delivery of goods and services. Altogether there were 713 organisations which did not conduct a public procurement procedure with the participation of less than three bidders. 352 out of these organisations systematically supervised the delivery of goods and services. At the same time, it is worth noting that 230 (83.6 per cent) out of the 275 organisations that conducted the above mentioned public procurement procedure on 1–3 occasions did perform an audit of the delivery of goods and services. This ratio is further improved by ex-

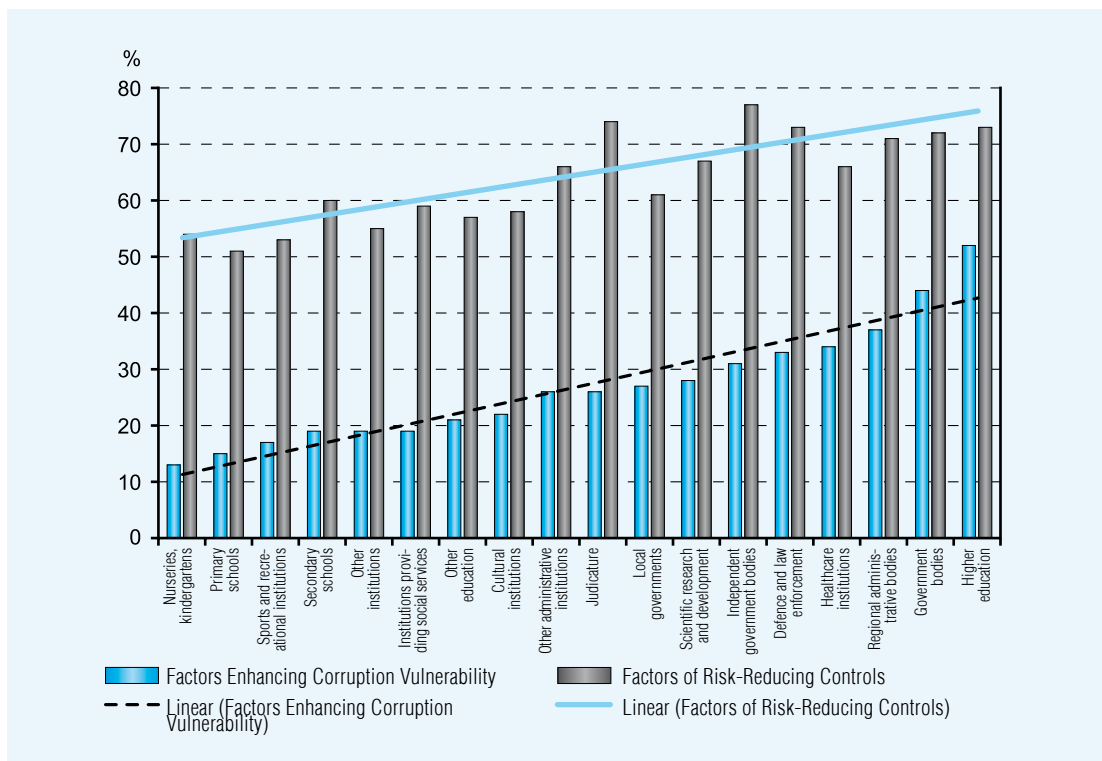
Chart 5

THE CORRELATION BETWEEN THE KMKT AND THE EVT (%)



Source: State Audit Office of Hungary

THE CORRELATION BETWEEN THE KMKT AND THE KVNT (%)



Source: State Audit Office of Hungary

examining the organisations which conducted such public procurement procedures more than three times. In this case, 101 out of the 109 organisations (92.7 per cent) performed audits. The tendency mentioned before may be interpreted as organisations conducting public procurement procedures can see the risks involved in procedures with less than three bidders, so if they have to conduct such a procedure, they try to minimise the risks arising from them by performing audits. At the same time, it should be noted that the invitation for minimum bids cannot not replace the audit of delivery of goods and services.

The organisations participating in the preparation and/or implementation of public procurement procedures have to face the biggest corruption risks when they get into contact with other economic players. In order

to prevent these risks we present three control mechanisms used by institutions conducting public procurement procedures. First, let us see how many of the organisations conducting public procurement procedures have internal regulations which require their staff to declare any economic or other interests (that are relevant for the organisation’s activity). Only 508 (62.7 per cent) of the 812 organisations conducting public procurement procedures said that they required their staff to make such a declaration, as shown in *Chart 7*.

By carrying out the integrity survey we also wanted to find out whether the organisations regulate their relationships with economic players, politicians or senior officers of other government bodies/local governments. 124 organisations (15.3 per cent) out of those conducting public procurement procedures have

requirements for all the three, and 188 (23.2 per cent) for two of the individuals and organisations mentioned above. The remaining 500 organisations (61.6 per cent) do not have any requirements for their relationships with these individuals or organisations, as shown in *Chart 8*.

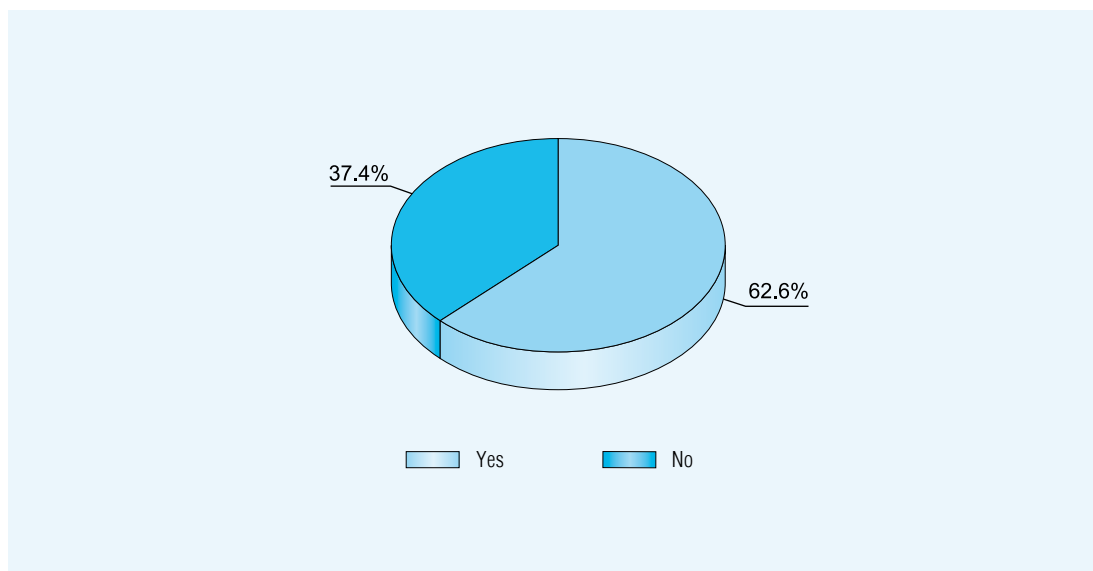
Finally, we wanted to find out how the organisations conducting public procurement procedures regulate conflicts of interest. Most of the organisations, 692 of them (82.5 per cent) stipulate requirements for conflict of interest in some other regulations. Only 17 organisations (2.1 per cent) use independent rules on conflict of interest. 103 institutions do not regulate this question at all. The distribution is shown in *Chart 9*.

The example of the controls related to the preparation and implementation of public procurement procedures amply illustrates how the concurrent use of several controls can

help manage a corruption risk and how they support each other. In summary we can say that the majority of the respondent institutions believe that it is sufficient to stipulate only rules for conflict of interest in some form. At the same time, it seems necessary to revise the content of the regulations on conflict of interest, given that 87.3 per cent of the examined organisations regulate conflict of interest in some way, while only 62.6 per cent require their employees to make a declaration on their economic and other interests (that are relevant for the organisation). This statement is further confirmed by the fact that 61.6 per cent of the organisations do not regulate their relationships with external players at all. These controls are interdependent and could support the effective management of corruption risks (in our case arising from the implementation of public procurement procedures) by strengthening one another.

Chart 7

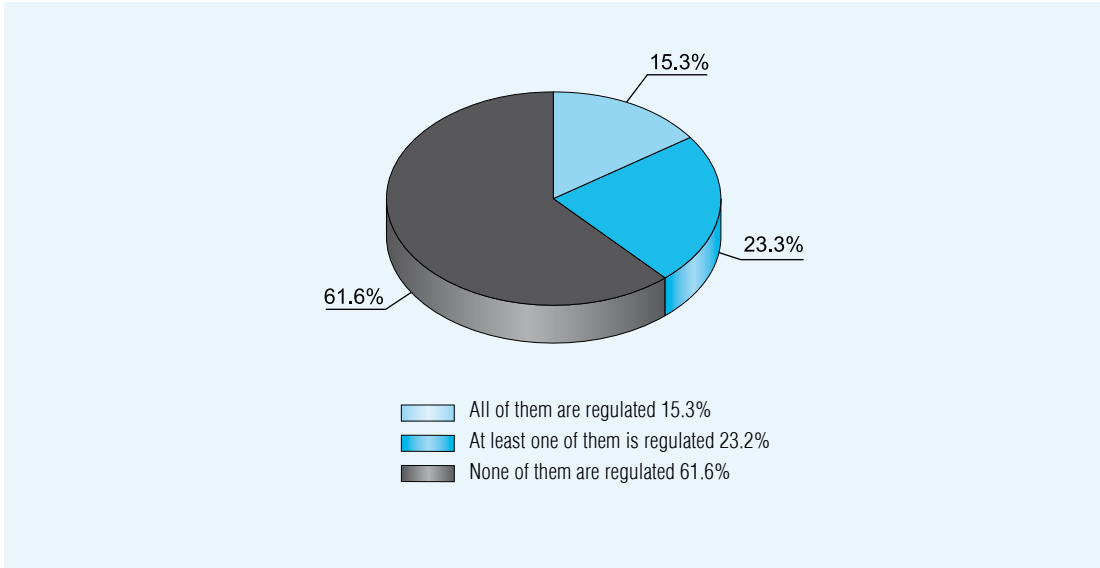
DISTRIBUTION OF ANSWERS BY ORGANISATIONS CONDUCTING PUBLIC PROCUREMENT PROCEDURES TO THE QUESTION “DO YOUR ORGANISATION’S INTERNAL REGULATIONS REQUIRE STAFF TO DECLARE ANY ECONOMIC OR OTHER INTERESTS THAT ARE RELEVANT FOR THE ORGANISATION’S ACTIVITY?”



Source: State Audit Office of Hungary

Chart 8

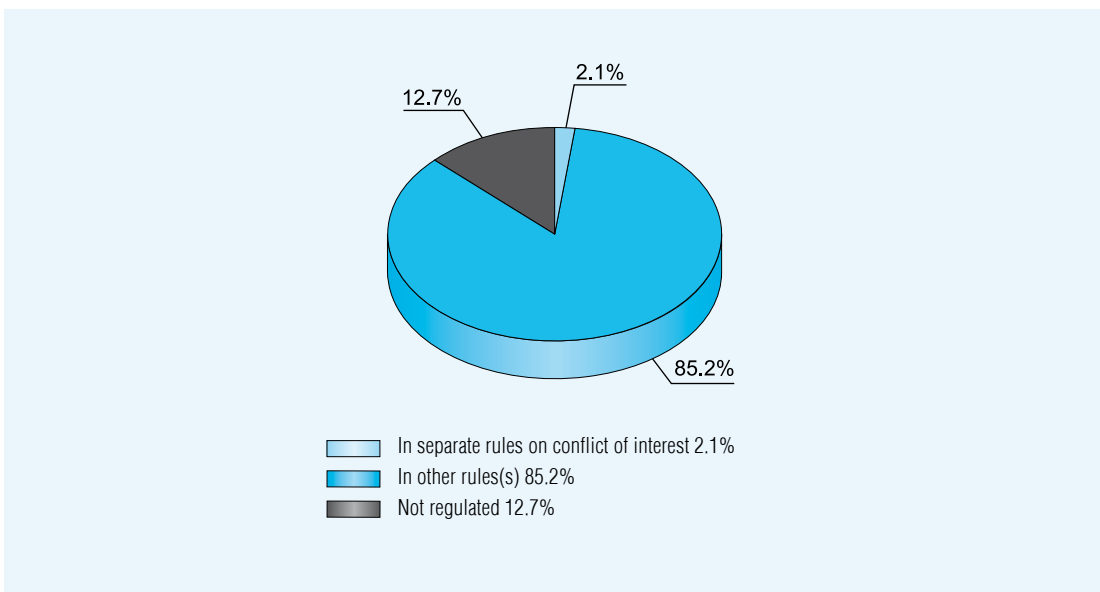
DOES YOUR ORGANISATION REGULATE ITS RELATIONSHIPS WITH ECONOMIC PLAYERS, POLITICIANS OR SENIOR OFFICERS OF OTHER GOVERNMENT BODIES/LOCAL GOVERNMENTS?



Source: State Audit Office of Hungary

Chart 9

IF YOUR ORGANISATION PARTICIPATES IN THE PREPARATION AND IMPLEMENTATION OF PUBLIC PROCUREMENT PROCEDURES, IN WHAT FORM DOES IT REGULATE CONFLICTS OF INTEREST?



Source: State Audit Office of Hungary

SUMMARY

In this article we have presented the key objectives of the Integrity Project (prevention of corruption, promotion of integrity-based organisational culture) and how they determine the applied methodology. We highlighted that the level of controls for the management of corruption risks adjusts to the corruption risk (EVT and KVNT) levels of the institution groups.

By examining the comprehensive indices calculated for each of the past three surveys we established that only the value of the factors increasing corruption risks increased significantly against the 2012 value. The main reason for the increase is that in the 2013 data recording, the ratio of institutions receiving EU support was higher for every institution group, compared with the 2012 survey. In addition, the rise in the index was also due to the higher number of respondent institutions, which participated in public procurement procedures that exceeded the EU limit or failed to apply the provisions of the Public Procurement Act, although the procurement value exceeded the EU limit.

We have also seen how the appearance of county government offices and their district branch offices modified the inherent risk index of the ‘local governments’ and the ‘regional administrative bodies’ institution groups. The number of institutions exercising infringement authority powers declined significantly, given that these powers were taken over by the government offices from the local governments. We also need to point out that the county government offices have legality supervision competence over the local governments, which further increased the inherent risk index of institutions classified as regional

administrative bodies (e.g. county government offices).

We used the example of public procurement to illustrate how controls can be assigned to the individual risks and what conclusions can be drawn by aggregating and analysing the answers provided by the institutions to the questions relevant for these controls. We have found that 87.3 per cent of the respondent institutions participating in public procurement procedures regulate conflict of interest in some way, and 62.6 per cent of them require their employees to make a declaration on their economic interests. It is noteworthy that 61.6 per cent of institutions carrying out public procurement activities do not regulate their relationships with external players at all. Regarding the examined control factors it can be established that organisations belonging to the previously mentioned group should take further steps to be able to handle corruption risks related to public procurement.

Given the comprehensive nature of the survey, we need to understand that the results and the objectives can be utilised only if respondent organisations themselves also analyse the questionnaire they have completed. The organisations can compare the risks inherent in their legal status and activities with the actual control level of their institution. In order to facilitate this, the State Audit Office of Hungary used the results of the 2013 survey to prepare integrity studies per institution groups for the first time, which provide information that can be utilised by the management of the organisations within these institution groups (such as government bodies, local governments, higher education bodies, etc.) and are also suitable for drawing specific conclusions.¹⁸

NOTES

- ¹ This article is based on the papers and analyses made on the basis of the integrity surveys conducted by the State Audit Office of Hungary.
- ² State Audit Office of Hungary (2013): Summary paper on the results of the 2013 Integrity Survey, Budapest, p. 7
- ³ State Audit Office of Hungary (2012): Integrity in the Public Sector – A Proposal for Legislators http://integritas.asz.hu/uploads/files/javaslat_a_jogalkotoknak.pdf
- ⁴ In 2009, the State Audit Office of Hungary launched its priority project, implemented with EU funds and entitled “Mapping Corruption Risks – Promotion of an Integrity-Based Culture of Public Administration” (SROP No.1.2.4.-09-2009-0002 Integrity Project), the pro-rata results of which were successful. As part of the project, national data surveys were carried out in the public sector institutions on two occasions (2011 and 2012) using an electronic questionnaire which could be downloaded on the Internet. The previous, implementation phase of the project took place between 1 December 2009 and 30 April 2012.
- ⁵ Non examination-based methods measuring corruption level: use of criminal procedure statistics and economic indices to assess the size of the black economy. For details see Báger, G.: *Korrupció: büntetés, integritás, kompetencia* (Corruption: Punishment, Integrity, Competence]. Akadémiai Kiadó, 2011.
- ⁶ State Audit Office of Hungary (2012): Summary paper on the results of the 2012 Integrity Survey, Budapest, p. 5
- ⁷ A letter from the Ministry of Public Administration and Justice supporting and urging participation in data recording was also sent out to organisations invited by the SAO to supply their data during the 2013 survey.
- ⁸ In earlier surveys, the name of this index was the Vulnerability Due to Lack of Controls (KHKT) index, and it focused on and measured the lack of the aforementioned controls. The new index employed in the 2013 survey focuses on the existence of these controls.
- ⁹ The Geospatial Integrity Information System (TiiR) developed as part of the Integrity Project
- ¹⁰ A total of 39 questionnaires were found not to comply with survey rules.
- ¹² The stabilisation of the partly changing range of data supplier institutions is ensured, among other things, by creating a group of supporters for the Integrity Project. The stabilisation of respondent institutions enables us to compare the results of previous years in order to draw more far-reaching conclusions.
- ¹⁴ The effective regulation (Act CLXI of 2011 on the Organisation and Administration of Courts and Act CLXII of 2011 on the Legal Status and Remuneration of Judges) split the tasks of the judiciary: the central administration of the courts is performed by the president of the National Office for the Judiciary (NOJ). The work of the NOJ’s president is supervised by the National Judicial Council (NJC). Since 1 January 2012 the Curia is the supreme judicial body. As a supreme judicial body, the Curia is responsible for the professional governance of the courts and the uniformity decisions (in addition to cases within its scope of authority). The county courts and the Metropolitan Court of Budapest have been operating under the name of court of justice since that time. The district courts, as well as the administrative and labour courts (the latter on the basis of the former labour courts) started operating on 1 January 2013.

¹⁵ The 2013 indices per institution type were weighted with the number of institutions participating in the 2012 survey.

¹⁸ For details see the Integrity Portal: http://integritas.asz.hu/arop_1_2_4

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