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Corruption Risks in Public Administration

Methodology and Empirical Experiences

SUMMARY: The article summarises the experiences of the research conducted at the Research Institute of the State Audit Office of Hungary in order to adapt the – integrity reinforcement based – Dutch methodology of risk analysis to public administration. This paper contains the results of a questionnaire survey as well as two experimental self-assessments carried out by the ministries. Furthermore, it describes that first and foremost it is the legal and permit procedures that represent a significant corruption risk, and that complexity, frequently changing legislation and political influence all increase corruption risk. Comparing the results of the survey and self-assessments with the empirical experiences of the State Audit Office of Hungary stemming from audits and pertaining to the causes of corruption, it is determined in the article that results and experiences are similar. The article, therefore, recommends that risk mapping be applied to a wider section of the public sector, the conditions for self-assessment be established, and the integrity approach be enforced more thoroughly within auditing methodology.

KEYWORDS: corruption, integrity methodology, risk analysis, risk map

Hungary's corruption rating has not improved by the end of the first decade of the 21st century, in fact, according to Transparency International's (TI) Corruption Perceptions Index (CPI)¹, as opposed to the country's highest rating of 5.3 in 2001, in 2010 Hungary only reached a score of 4.7, its lowest for this decade. The changes in this index – illustrating corruption levels in Hungary – necessitate a firmer stand against corruption.

But where exactly should we do this? Obviously where the level of corruption or the risk of occurrence is high. Due to the various surveys conducted, we are more – albeit still not sufficiently – aware of the existence and frequency of corruption phenomena, while the actual reasons behind them generally elude us. This is the reason why the targeted measures we have taken tend to be more revealing and punitive than preventive in nature, which would

result in permanent improvement. This is why it is important – besides the necessary activity to reveal and repress corruption – to direct more attention than before to assessing corruption vulnerability and to performing multi-faceted investigations of corruption phenomena.

OBJECTIVE

Taking this as a starting point, the article attempts to apply a version of the Dutch *methodology of risk analysis adapted for Hungary*² that is part of the internal control process of administrative institutions. On the one hand to present the logic and essence of the methodology to a wider professional audience, and on the other, to familiarise ourselves with how corruption takes shape in certain key areas of public administration.

Based on the experimental nature of the results of risk analyses, we will point out the specificities of the proposed methodology, such as the steps and recommendations that are required to operate the integrity-control system more efficiently.

METHODOLOGY

The approach used by the Dutch methodology assessing vulnerability to corruption is based on the neutralisation of the so-called corruption-triangle – motivation, opportunity, and rationalisation – in that it strives to eliminate possibility, neutralise motivation and counterbalance personal self-justification. The methodology also supposes that *organisational operation could become an efficient tool* in the implementation of the above.

As a result, public entities themselves can play an important role in preventing corruption by improving their *integrity*. Integrity implies morally appropriate, incorruptible and correct behaviour. It includes the integrity of the organisation, the integrity of the individual as well as the integrity of relationships and maintaining relationships, i.e., professional integrity. Reinforcing the above strengthens the legitimacy of the public sector and the trust placed in public administration, and reduces the opportunity for corruption.

With the above approach, the Dutch methodology³ clearly points out the factors contributing to corruption, as well as the determination of the organisation to fight corruption. It focuses in particular on those measures which the institution can take in order to prevent corruption situations from occurring as well as to increase their own integrity. *The methodology consists of five steps.*

① *Identification and assessment of areas of vulnerability* inherent to the activities and processes of the organisation, which manifest

in contracting, document issuing, legislative, law application, etc. relationships between the government and citizens (business sector), as well as in the management of state property.

② *Assessment of the factors increasing vulnerability* (increasing complexity, rapid changes, management and personnel).

③ *Assessment of the level of development of the integrity-based control system*, which shows how resilient the given organisation or its organisational units are in terms of arising corruption risks.

④ As a continuation of the above steps, a so-called *deviation analysis* is performed. This analysis sheds light on whether the balance between the vulnerability profile determined in steps one and two and the level of development (resilience) of the integrity-control system is sufficient.

⑤ If it is not, the results of the deviation analysis provide a basis for determining how to manage the most dangerous processes and *what measures are required* to improve resilience against corruption risks.

As a result of the above steps, a *risk map* can be compiled to illustrate corruption risks and designate possible directions of action in the public sector. We first attempted this in 2008 at the *Research Institute of the SAO* by asking ministries to participate *in the survey*. As part of the survey, ministries – by completing the questionnaire – indicated the corruption risks and vulnerability enhancing factors they encounter.

In relation to the survey and *in order to test the self-assessment method*, we asked the Minister of Economy and Transport and the Mayor of Szigetszentmiklós to put the methodology to the test in a given field of the ministry and the Mayor's Office, respectively.

In the article we will present the results received regarding the narrow, but comprehensive ministerial activities by also including empirical investigation experiences from SAO

audits from recent years as well as the *expert workshop* of the *Committee of Wise Men*⁴ in our reference framework.

MAIN RESULTS

Experiences of the Assessment

The assessment consisted of two parts. The goal of the first section was to uncover (internal) corruption risk (vulnerability) inherent to the activity performed, while the second section assessed (external) circumstances contributing to vulnerability. In the first part of the questionnaire – dealing with the relationship of the government and citizens (business sector), and the management of state property – we listed the processes and activities summarised in *Table 1*. We deviated from the usual template only in cases where the specificities of the ministries' activities so required. Accordingly, two scopes of activity (tax collection and provision of public services) were not included in the survey as ministries do not directly perform such activities. At the same time, we have elaborated in detail on legislative preparatory activity, as this is one of the ministries' most emphatic primary activities.

When completing the first part, ministries had to consider which of the vulnerable processes/activities indicated in *Table 1* are typical of the given ministry. If the ministry does not perform such activity, they had to check the "Not typical" column. Afterwards they had to decide whether the process/activity is a primary (i.e. is one of the main activities of the ministry) or secondary (i.e. is a process facilitating the performance of the main activity) process at the ministry.

In the second part of the questionnaire we inquired about two groups of factors contributing to corruption: complexity and changes/dynamics (characteristics of both are detailed in

Table 2). The ministries had to consider whether any of the circumstances featured on the list are typical of the given ministry. If they replied by checking the "Yes" column, they had to provide a brief description of how the circumstance impacted the ministry's activity.

Eight ministries provided answers to the questionnaire that we were able to assess. Based on the data of *Table 1*, *three general observations statements* can be made.

- ▶ There are several processes within the ministries' activity (contracting, payments and legislation) which carry the risk of corruption.

- ▶ A significant part of these processes is not related to the given ministry's basic, but rather its auxiliary activity.

- ▶ From the aspect of vulnerability to corruption, ministries do not form a cohesive cluster, and the tasks of the various ministries differ in this respect as well.

The data of *Table 1* attest to the fact that *the relationship of government and citizens (business sector) carries with it the risk of corruption*, however, in most cases not as part of primary, but rather of secondary processes. For example, there were only two ministries which considered public tendering their primary activity. According to the answers provided *the most vulnerable field is legislation*, specifically

- the determination of funding conditions (according to the answers of seven ministries regarding primary processes),
- the determination of permit conditions (according to the answers of six ministries regarding primary processes), and
- the determination of technical requirements (according to the answers of six ministries regarding primary processes).

According to ministerial opinions, the *second most vulnerable field to corruption is application of legislation*, specifically

- supervision (according to the answers of five ministries regarding primary processes), and

Table 1

| VULNERABILITY INHERENT TO THE ACTIVITY | | | |
|---|------------------------|--------------------------|--------------------|
| Typical attributes, type, activity | Primary process | Secondary process | Not typical |
| RELATIONSHIP BETWEEN THE GOVERNMENT AND CITIZENS (BUSINESS SECTOR) | | | |
| <i>Contracts</i> | | | |
| Public tenders | 2 | 4 | 2 |
| Restricted tenders | 3 | 5 | |
| Contracts of engagement | | 8 | |
| Ad-hoc procurements | | 7 | 1 |
| <i>Payments</i> | | | |
| Grants to enterprises | 1 | 3 | 4 |
| Allowances and aid for private individuals | | 3 | 5 |
| Sponsorship of civil society | 3 | 3 | 2 |
| <i>Permit issuing</i> | | | |
| Permits | 4 | 1 | 3 |
| Approvals | 3 | 1 | 4 |
| Attestations | 2 | 3 | 3 |
| <i>Legislation (the contents of which)</i> | | | |
| Product requirements | 4 | 1 | 3 |
| Determination of funding conditions | 7 | | 1 |
| Determination of permit issuing conditions | 6 | | 2 |
| Determination of technical requirements | 6 | 1 | 1 |
| <i>Application of legislation</i> | | | |
| Supervision | 5 | 1 | 2 |
| Audit | 5 | 1 | 2 |
| Investigation | 1 | 3 | 4 |
| MANAGEMENT OF STATE PROPERTY | | | |
| <i>Information</i> | | | |
| State secret | 3 | 2 | 3 |
| Professional secret | 3 | 2 | 3 |
| Business secret | 2 | 4 | 2 |
| <i>Money</i> | | | |
| Financial instrument (bond, stock) | | | 8 |
| Portfolio management | 1 | | 7 |
| Cash/account management | | 5 | 3 |
| Premiums, reimbursement, bonuses, personal allowances | | 8 | |
| <i>Property (moveable, real)</i> | | | |
| Buying/selling | | 4 | 4 |
| Asset management | 1 | 5 | 2 |

- auditing (according to answers of five ministries regarding primary processes).

Vulnerability inherent to permit procedures is also significant: issuing permits (according to the answers of four ministries regarding primary processes) and approvals (according to the answers of three ministries regarding primary processes).

The *vulnerability of contracting to corruption* is increased by

- restricted tenders (according to the answers of three ministries regarding primary, and the answers of five ministries regarding secondary processes),
- contracts of engagement (according to the answers of all the ministries regarding secondary processes), and
- ad-hoc procurements (according to answers of seven ministries regarding secondary processes).

The answers provided in Table 1 regarding the risks inherent to *activities related to the management of state property* inform us that, for

the most part, ministries considered these secondary activities and many stated that it is not typical of the organisation. We classified state secrets, professional secrets and business secrets as part of state property, as the state can dispose of these – with certain restrictions – as its own. The survey showed that the confidentiality of information is less and less characteristic of ministerial activity, as these are increasingly available to practically everyone. The danger of corruption is further reduced by the fact that ministries at present – with the exception of personnel payments – hardly ever deal with money or financial instruments. The management of moveable and real properties is also not very typical of ministries, and they regarded this as a secondary activity.

Answers given regarding *the existence of circumstances that increase the possibility of corruption* have been summarised in Table 2. They clearly show that the majority of ministries consider *circumstances related to complexity* a factor that seriously enhances vulnerability. At the

Table 2

CIRCUMSTANCES INCREASING VULNERABILITY

| Complexity | Yes | No |
|---|-----|----|
| Innovation/advanced IT systems | 5 | 3 |
| Complex legal environment | 8 | – |
| Specific legal and financial schemes | 5 | 3 |
| Bureaucracy | 6 | 2 |
| Systems of relations/connections | 5 | 3 |
| Lobbying | 4 | 4 |
| Political influence/intervention | 6 | 2 |
| Overlapping of public and private interests | 1 | 7 |
| Necessity to involve outside experts | 7 | 1 |
| Changes/dynamics | | |
| Young organisation | 4 | 4 |
| Frequently changing legislation | 8 | – |
| Significant growth or downsizing | 3 | 5 |
| Outsourcing, PPP | 4 | 4 |
| Crisis (restructuring, serious threats, danger of dissolution of the organisation or job loss) | 3 | 5 |
| External pressure (related to performance or expenditures, time-related or political pressure, scarce financial resources proportionate to the task or lack of funds) | 8 | – |

same time, only one ministry indicated the overlapping of public and private interests as such a circumstance. In contrast, all ministries evaluated the *complex legal environment* as such a circumstance, and with the exception of one ministry, all answered yes to the necessity of involving outside experts. The majority of ministries indicated that *political influence/intervention* and *connections* are both existing circumstances that increase vulnerability to corruption. The written explanations, however, show that the various ministries meant different things by political intervention. Interpretations ranged from the influencing of individual decisions to the political control of policy development.

With regard to *changes/dynamics*, ministries clearly considered *frequently changing legislation and other legislation* as a significant circumstance contributing to corruption risk.

It is our opinion that decision makers should pay particular attention to these circumstances. The amendment of single pieces of legislation may be forward thinking, however, the many amendments may make the application of legislation uncertain and allow individual legal interpretations to surface.

All ministries indicated that *pressure of performance* is a factor enhancing the risk of cor-

ruption. This is something to watch out for, as experiences show that living up to high performance requirements – accompanied by scarce financial resources for the task – results in frequent and easy exoneration from compliance with regulations and performance of thorough audits, and can thus become a source of corruption.

In *Table 3* – without mentioning the names of the ministries – we have attempted to illustrate the varying manners in which the various ministries sizes up the corruption risks of their own activities. At this point it is important to emphasise that vulnerability is an objective category and does not necessarily imply that corruption will occur in reality. It is nevertheless very important to be familiar with the areas of vulnerability in order to be able to prevent and eliminate corruption more efficiently.

The data in the tables attest to the fact that ministries judge the vulnerability to corruption associated with their own activities very differently from one another. Apparently, there were ministries that identified all factors contributing to corruption within their environments, but there were others which indicated all activities accompanied by the risk of corruption as regular activities. Apart from these extreme

Table 3

CHARACTERISTICS OF VULNERABILITY IN THE VARIOUS MINISTRIES

| Ministry number | Number of vulnerable activities | | | Number of factors increasing vulnerability |
|-----------------|---------------------------------|---------|-----------|--|
| | Total | Primary | Secondary | |
| 1. | 20 | 3 | 17 | 14 |
| 2. | 26 | 13 | 13 | 12 |
| 3. | 9 | 6 | 3 | 11 |
| 4. | 20 | 11 | 9 | 10 |
| 5. | 18 | 9 | 9 | 8 |
| 6. | 22 | 7 | 15 | 8 |
| 7. | 21 | 11 | 10 | 6 |
| 8. | 15 | 8 | 7 | 6 |
| Maximum value | 26 | 26 | 26 | 14 |

cases, the figures show that *ministerial activity is exposed to a number of corruption risks*. As a consequence, revealing these risks and the factors contributing to them are of great importance in preventing and curbing corruption.

It can be concluded from the survey results that the ministries involved had interpreted certain sections of the questionnaire differently. This is not uncommon in the case of such assessments as respondents do not always receive specific instructions on how to fill out the questionnaires. In this case we interpret bureaucracy as a negative factor with respect to corruption; one which complicates work processes and prolongs administration, and, as a consequence, staff are not likely to follow applicable legislation and internal regulations, but tend to avoid them. Over-regulation, therefore, does not decrease, but rather increases the risk of occurrence of situations involving corruption and conditions that infringe upon integrity. However, this was not the only interpretation reflected by the feedback from the ministries.

Experiences of the Experimental Self-Assessment

The *Ministry of Economy and Transport* involved the *Small and Medium Enterprises Appropriation* in the self-assessment. The appropriation provides financial grants through tenders to the entrepreneurial community, which, in turn, plays a major role in the development of the economy. In this particular field, the factors contributing to corruption were the difficulties of specific legal interpretations, lobbying, political influence as well as pressure of performance. This first and foremost called attention to the importance of the wider application of the principle of transparency and the increased need to provide information regarding amendments to legislation.

Experimental application was aimed at the *Department of Building and Construction of the Municipality of Szigetszentmiklós*, specifically at the *issuing of building permits*. In this particular case, the high risk of breaching integrity-related regulations was caused primarily by the inadequacy of the information system and a shortage of personnel. The overlapping of public and private interests could be another potential risk factor in this field.

The lesson learnt from these two experimental programmes was that integrity is a relatively unknown concept among public entity employees. Therefore, in the interest of self-assessment efficiency, close attention should be paid to familiarisation with the method (uniform term use, correlations between various sections of the methodology and the simplification of the scoring method applied), as well as preparation of application (providing written information, training and a qualified moderator). However, in the case of appropriate management support, *self-assessment is feasible*, as the participants took part in the joint work with interest and responsibility and expressed a willingness to take part in similar projects in the future.

Experiences of Audits Performed by an Audit Institution

Given the fact that the survey results presented here are very close to the corruption opportunities related to the various activities and the factors contributing to them experienced during SAO audits performed in recent years, this similarity on the one hand confirms everything that has been said regarding the utility of the methodology, while on the other, based on the audits – on a supplementary basis – allows for the *detailed analysis* of corruption risks observed in *various specific fields* of public administration, as well as their nature and causes.⁵

In the course of this we will be following the method of analysis employed in the expert workshop of the Committee of Wise Men, in accordance with which *the presentation of main case types is followed by the examination of causes, introduction of players, and finally the drafting and qualification of management methods and the creation of required conditions.*⁶

Public grants

In this particular field the main, most typical cases of corruption are the following.

▸ *Awarding of Economic Development Grants*

In light of the fact that deciding on grants is not derived from a comprehensive national economic plan, in recent years this activity has been managed by the person or committee responsible for development policy as appointed by the government. Decision making, therefore, on the one hand has been largely influenced by political aspects while on the other, personal (entrepreneurial) ambitions to enforce interests have also played a major role. Corruption risk is equally characteristic of EU and domestic grants.

▸ *The Use of So-Called Professional Chapter-Managed Appropriations in the Chapters of the Budget* Since practically all types of expenditures (funding of social organisations, consumers, etc.) can be found among chapter-managed appropriations, and because the requirements of the legal provision in force on the operational procedures of public finances – stating that these appropriations serve professional-sectoral and region development goals – have not been met. This circumstance, along with those mentioned above, largely contributed to increasing corruption risk.

▸ *Determination of the Main Directions of Development* As a consequence of the state not having a vision for the future of the country or a clear idea of the directions of development, lobbying had a greater than acceptable role in determining the directions of development to be enforced in practice.

The *general cause* of the dysfunctions present in the system of economic development is the lack of a long-term socio-economic strategy, and consequently, development fluctuations, accelerations and halts due to frequent concept changes. Therefore, there was no clear picture of what the state was supposed to do, what answers should be provided to arising challenges, and thus there was adequate room for political decision-makers to “improvise”.

This background explains why the comprehensive planning mechanism was not implemented by the 2007 deadline. The System of Requirements of Governmental Strategy-Making elaborated by the Prime Minister’s Office has only been applied by a few ministries (Ministry of Economy and Transport and Ministry of Education), and the ministries did not have any general strategy-making requirement; the handful of sectoral strategies prepared could not constitute an adequate system to base a national economic development programme on.

The modern instruments of efficient fund utilisation, such as, for example programme-based budgeting, have not been applied in practice during planning. In many cases the development of expedient practices of professional development grants were hindered by the legal, regulatory and interpretational uncertainties accompanying institutional changes and reorganisations – such as in the case of the Government Decree on the National Development Agency adopted in 2006. In accordance with the decree, the National Development Agency prepared comprehensive national development plans, however, it only performed this task with respect to EU funds.

In several instances no financing plans were prepared for approved development programmes (e.g. motorway constructions). This increased corruption risks, opportunities for cartelism and collusion between parties.

It was impossible to ascertain what kind of effect the granted corporate tax benefits had on

economic growth or employment. Neither the Ministry of Finance, nor the Hungarian Tax and Financial Control Administration had any information on this matter.

The above reasons and circumstances explain the phenomenon of so-called “development corruption”, on the extent of which a voluntary opinion survey performed within the framework of an SAO audit provides some information. It shows that 20 per cent of respondents supposed there were phenomena alluding to corruption in the case of EU grants, while 24 per cent of respondents presumed this in the case of domestic grants. The proportion of grant recipient respondents that considered EU grants to be absolutely corruption-fee (80 percent) was four percent higher than that for purely domestic grant recipients (76 percent). Eighty-two percent of respondents felt that the harmony of grants, tax and contribution allowances with growth and employment objectives is moderate or worse. (State Audit Office of Hungary, 2008a, p. 32).

The development of the legislative background for development policy should have been the *responsibility of political leaders*. Within the fulfilment of the “development corruptions” indicated above, the role of the decision-makers of organisations in charge of tenders and company executives seeking opportunities for development at any price stands out.

In this field, in addition to other control and regulation related changes aimed at mitigating corruption risks, the State Audit Office of Hungary recommended that the government prepare the comprehensive regulation aimed at reinforcing the planning of state development tasks, which includes unified planning methodology for the use of domestic and EU funds.⁷

European Union Funding

A comprehensive country strategy would also be required for the funding system of the multi-annual EU budgetary cycle, which, as an

organising principle, would determine the directions and areas of development. The tendering system managing the utilisation of EU funds should be adapted to this. In the absence of this, a disordered situation came about, providing an opportunity for decision making processes that served the interests of individuals or small groups. The situation was further worsened by the fact that staff and decision-makers of the background organisations actually awarding grants had authority on the utilisation of grants that was greater than required and thus were more vulnerable and exposed to corruption. All this was exacerbated by the fact that they were often under strong political pressure from the background.

Although the draft bill on the institutional system of development policy had been prepared in 2006, development policy still remained without a legislative background and its operation is regulated by (government and ministerial) decrees. The repetition of regulations and the creation of legal loopholes was frequently discernible within these decrees. In the interest of harmonising EU grants, a National Development Council and a Development Policy Steering Committee was set up, the head of which was the Prime Minister. Therefore, decision making was characterised by political decisions, and the role of sectoral (professional) planners was greatly reduced.

The indicator and monitoring system that supervised the utilisation of grants was implemented incompletely, as State Audit Office audits pointed out on several occasions (see for example State Audit Office of Hungary, 2008a, p. 101–102). Although the result-oriented indicator-system was realised in operational programmes, it was not suitable for comparing objectives and results.

Data management security was another significant risk factor, because outside development and operating firms were authorised to

modify data and directly perform queries on a database level.

By not ensuring the appropriate preparation of the comprehensive legal regulation of development policy, the government did not contribute to making the allocation process of EU grants transparent.

Public Procurements

Regarding public procurements, the main fields of corruption risk are the following.

- ▶ *Collusion of contracting authorities and bidders* (State Audit Office of Hungary, 2008b, p. 22): within the framework of this leaked information or tailor-made calls for proposals are common, in return for which contracting authorities offer financial gain to bidders. A specific manifestation of this is when the preferred bidder submits a lower price and hence wins the tender. Another specific method of collusion is determining tender conditions in a way that favours a singled-out bidder, meaning that all other bidders are at a disadvantage to begin with.

- ▶ *Bidder cartelism*: entrepreneurs submitting bids divvy up the public procurement projects beforehand, which means that the costs of implementation rise compared to the costs realisable in competition, as there is only a semblance of competition.

- ▶ *Withdrawal of funds available for public procurement*: corruption can also occur when in the case of an apparently winning, but undesirable bidder the contracting authority consciously withdraws the funds available for public procurement.

- ▶ *PPP-schemes*: given the complex nature of these projects, it is easy to determine unjustifiably high prices with respect to certain elements, and this goes unnoticed by public administration and local government decision makers, who thereby accept the price.

- ▶ *The low rate of participation (approximately 30 percent) by local governments in centralised*

public procurement. Thus, they are unable to take advantage of the benefits of centralised public procurement, which would also mitigate corruption risk.

The *main reasons* for public procurement-related corruption risks are impenetrable legal over-regulation and political intervention. Corruption risks are further increased by the circumstance that central government control is not sufficiently palpable in shaping public procurement policy – as pointed out by State Audit Office audits (State Audit Office of Hungary, 2008b, p. 12).

The number of legal remedies in Hungary is high – legal remedy proceedings are launched in approximately 20 percent of cases – which is very difficult to apply, and this phenomena can also be linked to frequently changing legislation (State Audit Office of Hungary, 2008b, p. 16). The launching of civil proceedings for damages is not typical following the protraction of the administrative phase, as this protracted process often results in a lapse of interest. As a result, there is no possibility of actual legal remedy, as there is already a valid agreement in force between the contracting authority and the winner, which cannot be subsequently amended through legal remedy, and therefore in most cases the contracting authority is only hit with a fine.

In the absence of relevant legislation, only a limited number of organisations concerned could produce information on the field of public procurement. No database exists for the supervisory agencies on institutional public procurements (as shown by audit reports prepared by the SAO), therefore they were unable to support the reform process of public procurements with appropriate indicators. The indicators assisting the unfolding of the new strategy urged from 2007 in the interest of curbing corruption have not yet been prepared.

The deficiencies of the cooperation of the government and the Public Procurement

Council also contributed to the fact that many tasks remained unresolved, including

- the organisation of a monitoring system suitable for measuring the efficiency of the public procurement system;
- the creation of conditions for the checking-warning system ensuring the detection of public procurement irregularities and corruption risks;
- the development of electronic public procurement, and
- the amendment of public procurement regulations to express the specificities of PPP-arrangements.

Political Corruption

This particular type of corruption manifests itself in three typical cases.

► *Obtaining Election Campaign Funds*

Exceeding campaign fund limits and the high number of reports submitted to various government bodies regarding these violations are recurring phenomena in domestic practice. As both parliamentary and local elections serve the acquisition of political power, due to chaotic circumstances it is highly unlikely that any political groups could refrain from these limit violations. According to our analyses, this corruption risk is further enhanced by the following phenomena:

- with respect to the utilisation of normative state subsidies, it is not transparent what the concept of a non-personnel cost is, and what the form, content and paying agency of utilisation is;
- in the case of election expenses, it is not possible to find out from whom the allowances originate among the other financial grants;
- how the registry of the costs and funds of individual candidates take place in a more controllable manner;
- what sanctions are imposed for missing deadlines and failure to adhere to reporting obligations.

Under such circumstances there is adequate room for election campaign funds to exceed the limits set by law, possibly several times over.

► *Operation and Financial Management of Political Parties* The balance sheets and financial reports issued on party finances are not in line with the reporting procedures set out in Act C of 2000 on Accounting. There are no regulations as to what should happen to funds originating from prohibited grants and/or activities. It is unclear under what conditions parties can use real estate owned by local governments. It is also not clear what qualifies as a contribution or funding to a party. All this is disadvantageous from the aspect of the transparency and controllability of party financing, however, it is also auspicious for corruption.

Among the reasons, with respect to the conditions and circumstances of auditing, it must be stated that neither the provisions of the Act on Election Procedures (hereinafter: Election Act) in force since 1998, nor the provisions of the Party Act regarding the third parliamentary election cycle ensured the conditions necessary for the complete transparency of the origin and utilisation of campaign funds. Therefore, in its reports issued since 1998 on the audits of accounts the SAO has repeatedly indicated that it cannot fully fulfil the role that constitutional regulation would require of it relating to the transparency of the election campaign.

The SAO, furthermore, regularly called attention to the fact that effective regulations on expenditures available for election campaigns and their auditing pose a corruption risk, and do not fully support the enforcement of the basic principles of the election procedure.

The SAO repeatedly recommended that the government initiate the amendment of the Election Act in the National Assembly so that it ensures the transparency and controllability of campaign financing, and clearly determines:

- which period and the funds and expenses of which activity should be taken into

account in terms of the accounting of election expenses;

- with respect to the utilisation of normative state subsidies provided based on the number of candidates, what the concept of a non-personnel cost is, and what the form, content and paying agency of utilisation is;
- among what funds for election expenses and other financial grants, in what form and originating from whom must allowances be taken into account;
- what the format and detailed content of the election report published in Magyar Közlöny (Official Gazette) presenting the amount, source and mode of utilisation of state and other funds and financial support for parliamentary elections should be;
- how enforcement of the registry requirement for the election costs and funds of individual candidates should take place in a more controllable manner;
- what the realistic value limit of expenditures per candidate above the budgetary subsidy should be;
- what the content of the written agreement entered into by organisations delegating the same candidate should be regarding campaign financing, record-keeping and accounting;
- what sanctions should be imposed if accounting and reporting obligations with deadlines are not met.

Despite the fact that the SAO has engaged in repeated talks with legislative bodies regarding recommendations and possible solutions – which they have accepted and taken into account when drafting legislation – to this day, for lack of consensus, no decision has been made to resolve the issue.

CONCLUSIONS

We have briefly presented all three elements of the methodology for detecting and assessing

corruption vulnerability required to build the integrity-control system to fight corruption. These elements were assessment, self-assessment and auditing.

The *assessment* – as we have seen – can be very helpful in identifying and assessing corruption risks. The survey, however, mainly provided us with results on vulnerability to corruption and the factors contributing to this, i.e., the so-called vulnerability profile, but not on the whole range of measures arising from the deviation analysis required to assemble the risk map. Thus, it is extremely difficult to obtain information regarding the so-called “soft measures” (values and norms to follow, integrity awareness, attitude of management and organisational culture), as opposed to information on “hard measures” such as amendment of legislation, official organisation, amendment of internal controls and sharing of responsibility.

The usability of the results of the assessment we have presented is also limited by its extensive nature, which only concerns ministries and omits other central institutions and local governments. Therefore it is *necessary to extend the mapping of corruption risks to a wider section of the public sector*.⁸

We have presented two examples of *self-assessment*. This narrow sample is far from representing the great significance of this method in corruption risk analysis. During the self-assessment, at meetings the institutions’ employees focus on the problems which – based on Dutch experiences – manifest themselves in the shape of specific measures (including so-called “soft” measures) and are suitable for mitigating residual risk from the given institution’s deviation analysis, and thus strengthening the integrity-control system. It can therefore be recommended that *in the interest of the widespread application of the self-assessment method, public entities – with the government’s assistance – should put the required conditions into place*.

The most important of these are the will and commitment of leaders, the necessary information and familiarity with the self-assessment method. It should not be neglected that in order to appropriately perform the self-assessment – in addition to fulfilling numerous other tasks – time is required, which, presumes capacity and financial resources.

The third element of corruption assessment methodology, *auditing* is performed by professional independent auditors. Albeit the level of objectivity of the assessment will be high, it is much more difficult to get a true picture of the actual operation and level of development of the integrity-control system this way. Once again we cannot get a reliable picture regarding internal information and “soft” measures. This is because we cannot gain full awareness of the most problematic issues within the organisation with the help of the acquired documents or during the interviews. Recommendations – similarly to the assessment – also primarily concern “hard” measures. It is possible to increase awareness through auditing, however,

it is extremely difficult to increase management’s sense of responsibility with the same tool.

By applying the assessment methodology in practice, we can collect information on a regular and continuous basis on the corruption risks arising in public entities, as well as on the level of development of anti-corruption measures. A decision on whether this can be efficiently achieved through assessments, self-assessments or audits must be made within the framework of an *implementation strategy*.

Two very important factors have to be considered in order to elaborate the implementation strategy. One is that – as we have seen above – a large number of organisations and institutions belong to the key areas of public administration, all with special features, unique vulnerabilities and risks and varied levels of development of integrity-control measures. The other factor is that a multi-faceted, analytical overview of the *integrity profile of the public sector* is required in order to appreciably lower the level of corruption.

NOTES

¹ On a scale of one to ten, 10 indicates a country free from corruption.

² Within the framework of the Transition Facility of the European Union, in 2007–2008 the Research Institute of the State Audit Office of Hungary (until 31 December 2008 the Institute for Development and Methodology of the State Audit Office of Hungary, abbr. ÁSZ FEMI) and the Dutch Audit Office implemented a Twinning Light project. The objective of this project was to elaborate a risk analysis method that would allow for the identification of the types, places and nature of corruption risks in the Hungarian public sector.

³ For detailed presentation see Báger, Pulay, Korbuly, 2008 and Báger, Korbuly, Pulay et al, 2008

⁴ Dr. László Sólyom, President of the Republic of Hungary called on members of the Committee of

Wise Men, namely: Péter Csermely, István Fodor, Eva Joly and Sándor Lámfalussy to undertake the task of elaborating recommendations to rebuild the system of education and to curb corruption. (See Csermely, Fodor, Joly et al., 2009). Seventeen experts (among them the author of this paper) assisted in the elaboration of these recommendations.

⁵ Regarding the approach and priorities of the previous anti-corruption activity of the State Audit Office of Hungary see for example Báger – Kovács, 2005, pp. 40–48. Regarding the international experiences of the anti-corruption activity of state audit offices see Báger – Jánossy – Kovács, 2010.

⁶ Given that this latter aspect is the subject matter of the article published by István Fodor and Tibor Héjj in the current issue of *Public Finance Quarterly*, in our study we will only touch upon the topic briefly.

⁷ For more detail see Báger – Kiss – Kovács – Vigvári, 2010, p. 92.

⁸ This is what the State Audit Office of Hungary is attempting in 2011 by sending out a questionnaire of approximately 150 questions to 4,200 public authorities, which – following the approach of the method described above – assesses and analyses corruption

risks. Based on the answers, a vulnerability profile will be prepared for each data supplying institution, and in accordance with these – using complex indicators – the results of the various institutions will be published online with the assistance of spatial tools (risk maps). In accordance with the adopted programme, the data recording shall be repeated yearly until 2017.

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