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Preventing Corruption by Strengthening Organisational Integrity

SUMMARY: The article describes the theoretical basis of the integrity survey conducted by the State Audit Office of Hungary and proceeds to assess the extent to which integrity controls have been established in the Hungarian public sector based on the 2013 survey. The paper underlines that compliance with the legal requirements is a necessary but not a sufficient condition of integrity. Besides the mandatory rules, soft integrity controls influencing employees' behaviour play an important role in ensuring that a public body operates in line with its declared principles and values. Strengthening integrity is an effective means for preventing corruption as well. The data of the survey show that the establishment of an integrity-oriented organisational culture is at an early stage in the Hungarian public sector. The majority of the institutions have developed their own fundamental internal regulations, but less than 40 per cent of them perform risk analysis. More than 50 per cent of respondents apply a number of 'soft' controls. The ratio of organisations which have introduced controls specifically against corruption is rather low.

KEYWORDS: corruption, compliance, business law, public administration, public body

JEL CODES: H830, K4, K420

In 2009, from EU funding the State Audit Office of Hungary (SAO) launched its Project Integrity entitled 'Mapping Corruption Risks – Promotion of an Integrity-Based Culture of Public Administration'. One of the objectives of the project is to assess the exposure of public sector institutions to corruption risks and the level of controls designed to reduce such risks. So far three national data surveys have been conducted among the institutions of the public sector. The first section of the article presents the theoretical basis of the survey. It attempts to establish the extent to which the strengthening of organisational integrity offers more than compliance and, hence, the reason why it is a suitable tool for mitigating the risk of corruption. The second part of the article

relies on the findings of the 2013 SAO survey to demonstrate the level at which the controls required for the strengthening of integrity have been put in place in the public sector.

THE CONCEPT OF INTEGRITY AND INTEGRITY CONTROLS

The concept of organisational integrity

Hardly known 8–10 years ago in Hungary, the word 'integrity' has become a well-established term in the Hungarian public sector by now. This is clearly demonstrated by the fact that in 2013 over 1,500 budgetary institutions completed the integrity questionnaire distributed by the SAO. In February of the same year, Government Decree No. 50/2013.

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(II. 25.) on the integrity management system of organs of public administration and on the procedural rules applicable to dealing with lobbyists was published, which defines the concept of integrity. The regulation stresses, as customary, that the concept should be interpreted accordingly only for the purposes of the specific regulation, leaving room for different other interpretations. Before discussing the definition provided in the legal regulation, it is worth looking at the meaning of integrity in some detail.

The word ‘integrity’ originates from the Latin expression *in-tangere*, which means ‘untouched’. In other words, the term designates someone or something unblemished, inviolate and beyond reproach; in addition, it alludes to virtue, incorruptibility and the condition of purity. The concept of integrity is used to describe both people and the operation of organisations.¹

The word ‘integrity’ is attributed different meanings in the different branches of social science. For example:

- according to one of its frequently used meanings, integrity refers to the consistency of principles, values, actions, methods and measures; that is, a behaviour which complies with certain established values;
- in system theory it is sometimes used for systems which are capable of achieving their goals;
- as a moral value it means impartiality and soberness or, on the basis of its origin, uniformity, undividedness.²

In the sense of organisational management, integrity means that an organisation has a positive, sound set of values that are in line with social expectations and it works in accordance with these values. The latter presupposes that the employees also identify themselves with the organisation’s values and act accordingly. In this sense integrity is a synonym for correct

(compliant, ethical) employee behaviour. Consequently, integrity is the exact opposite of incorrect employee behaviour, that is, of fraud, corruption and any kind of abuse of official power.

This is the point where integrity and the fight against corruption come together since the higher level of integrity an organisation has, the more resistant it is to corruption. Consequently, the strengthening of an organisation’s integrity is an important means for preventing and mitigating the risks of corruption. To some extent this is true the other way around as well: the more knowledge an organisation has about its corruption risks and the more controls it has put in place to prevent and address them, the sounder its integrity is. This is true only to a certain degree because integrity means that an organisation is not only free of corruption but also free of other incorrect behaviours (such as fraud, despotism). Based on this reverse approach the integrity of an organisation may be defined as its resilience to damage caused by the wrongful conduct of its employees.

In this context, integrity does not imply an organisation’s compliance in general; it simply means that the organisation has managed to mitigate, to a very large degree, the risks arising from incorrect employee behaviour. Accordingly, although fraud or corruption hardly occurs in such organisations, employees may nevertheless commit inadvertent mistakes in accounting or, for instance, its fire protection regulations may be insufficient.

The government decree does not differentiate based on the subject of rules. Pursuant to the regulation, integrity³ is defined as follows: *“the operation of an organ of public administration in adherence to the rules applicable to it and to the objectives, values and principles set out by the head of the official organisation and its managing body”*.

The extension of this definition to all organisations with the exclusion of the features

specific to organs of public administration⁴ will lead to the following definition: organisational integrity means the operation of an organisation in adherence to the rules applicable to it and to the values and principles defined by or for it. Operation in accordance with objectives have been removed from the definition deliberately, given that they do not necessarily correspond with public interest in the case of organs outside the realm of public administration. For example, profit maximisation or a higher market share is not an objective that increases an organisation's integrity once achieved. In general, it is not advisable to apply the terms related to integrity defined specifically for public administration indiscriminately to the organisations of the public sector – and especially to the private sector – because public administration is highly regulated and in general, there is less room for voluntary compliance with the rules than in other areas of the public sector.

The concept and type of integrity controls

How can an organisation strengthen its integrity? It can do so by developing its own integrity management system, that is, by defining and consistently communicating the organisation's set of values, and by creating and operating the tools (rules, codes of conduct, ethical principles, mission statements, etc.) that promote or even enforce these values in daily practice. These are called integrity controls.

If integrity is defined as the operation of an organisation in adherence to the rules applicable to it and to the values and principles defined by or for it, then all controls that promote compliance with regulations should be regarded as integrity controls. Furthermore, the non-mandatory requirements which facilitate compliance with the values defined

by or for an organisation are also integrity controls.

In view of the above, we can distinguish between two groups of integrity controls. The first group includes integrity controls that serve compliance, while the second one consists of controls that facilitate the enforcement of values and principles. The introduction of controls that promote compliance – for example, the elaboration of public procurement rules – is generally prescribed by legal regulations with binding force. On the other hand, regulations that encourage compliance with principles and values are usually not required by law, although recently there have been some changes in this regard. For example, several types of institutions are required to develop a code of ethics. When the application of a certain control is mandatory by law, it is a so-called 'hard' integrity control; when a regulation (e.g. a code of ethics) is adopted by an organisation on a voluntary basis, it is a 'soft' control.⁵

The question arises as to how to differentiate between integrity controls and internal controls if both control systems are meant to promote the compliant operation of the organisation. In order to answer this question, we should reiterate the definition of the internal control system. Pursuant to Section 69(1) of Act CXCIV of 2011 on Public Finances, *"The internal control system is a system of processes designed to manage risks and obtain objective assurance in order to ensure that:*

a) the budgetary institution performs its activities (operations) in a regular manner and in accordance with the principles of reliable financial management (economy, efficiency and effectiveness);

b) the budgetary institution fulfils its accounting obligations, and;

c) the budgetary institution protects the resources of its organisation against losses (damage) and improper use".

Let us compare this definition with the notion of the integrity management system set forth in the government decree. According to the decree, “the integrity management system is the functional subsystem of the governance and management system, which is integrated in the internal control system and serves to ensure the integrity of the organisation, comprising the main elements of specifying the values to be complied with, guidance for compliance, monitoring and, as required, enforcement of compliance.” Accordingly, the internal control system is a broader concept, and the integrity management system is one of its subsystems integrated into it. What is meant by a functional subsystem? It means that the integrity controls include those controls whose function is to promote and enforce the correct behaviour of employees. For this purpose, correct behaviour does not simply mean ethical conduct but a behaviour that complies with the declared (positive) values of an organisation. For example, if the declared value of an organisation is that it does not keep its clients waiting, then correct behaviour means that employees answer the phone even if they are busy doing something else.

This example, which is also supported by the discussion above, clearly demonstrates that integrity controls cover certain aspects that are

essentially related to the declaration of values and guiding principles as well as voluntary compliance with them, yet they are outside of the scope of internal controls. Accordingly, some integrity controls, especially the so-called ‘soft’ controls, are beyond the scope of the internal control system; that is, they are not part of these controls. Table 1 summarises the relationship between internal controls and integrity controls by taking into account these aspects.

The table shows that there is an overlap between internal controls and integrity controls. This is composed of the mandatory rules that enforce an organisation’s compliance with regulations and with the principles and values defined by or for it (including, for example, a public procurement policy). The controls that facilitate voluntary compliance with rules, values and principles (such as a mission statement) are considered to be integrity controls, which are not part of the internal control system. The other objectives of the organisation, such as rules intended to enhance efficiency (for example, the regulation of overtime) are part of the internal control system but do not qualify as integrity controls. Finally, there are regulatory tools which were created by the organisation voluntarily in order to achieve an organisational goal that is

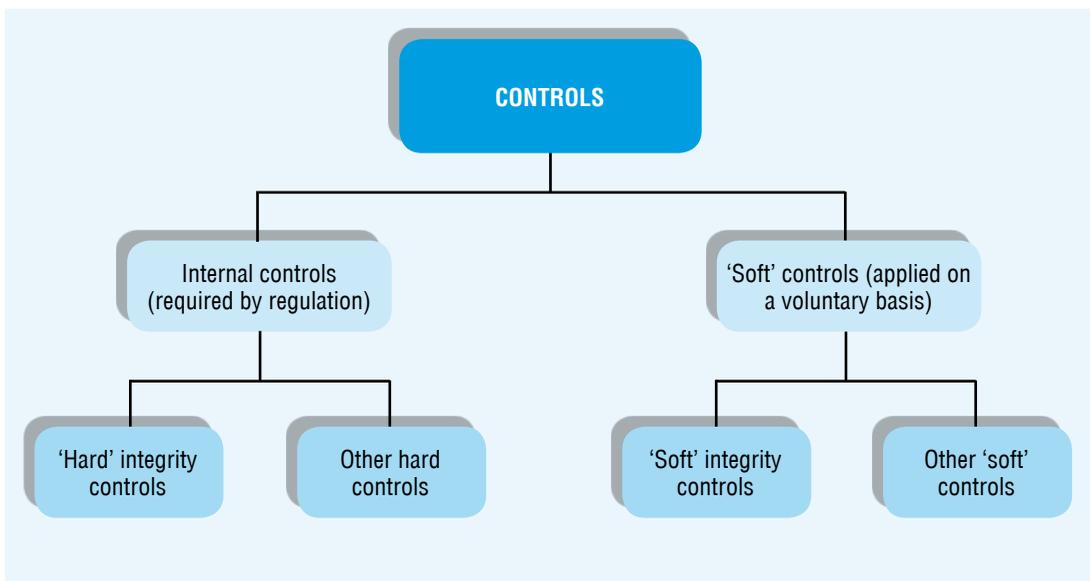
Table 1

OVERLAPS AND DIFFERENCES BETWEEN INTERNAL CONTROLS AND INTEGRITY CONTROLS

Purpose of control	Enforceability of control	
	Mandatory	Voluntary
Operation of the organisation in adherence to legal regulations and to the principles and values defined by or for it	Internal controls, ‘hard’ integrity controls	‘Soft’ integrity controls
Compliance with other purposes (e.g. economy, efficiency, effectiveness)	Internal controls	Other ‘soft’ controls

Source: State Audit Office of Hungary

THE STRUCTURE OF THE CONTROL SYSTEM



Source: State Audit Office of Hungary

not directly related to integrity. These can be the economic objectives of a strategy or plan.

The relationship between the controls is illustrated in *Chart 1*.

In what way is integrity more than compliance?

As can be seen from the discussion above, the level of regulation, that is, the existence, adequate quality and timeliness of the statutorily required regulations and records, are necessary but not sufficient conditions for organisational integrity. They are necessary as their absence reduces the resilience of the organisation against corruption. At the same time, they are not sufficient conditions. Based on the data contained in Table 1, it is the existence of 'soft' integrity controls that compels an organisation not only to operate in compliance with legal regulations but also to act according to its own declared principles and values.

However, this is far more than simply collecting and declaring a set of neat principles and values and holding the organisation accountable for them. Some of the literature⁶ proposes a number of other criteria for differentiating between 'hard' and 'soft' controls besides the one that defines whether or not the application of controls is required by legal regulation. In this approach, the requirements that directly regulate the behaviour of employees are called 'hard' controls, regardless of whether or not the organisation is legally bound to use them. For example, if a school stipulates that its teachers may not accept any gift other than flowers, books or sweets, it is a 'hard' control, irrespective of whether the school was required by law to introduce such a control. In contrast, 'soft' controls 'merely' influence the behaviour of employees. For example, the mission statement of the organisation stating that the school strives to raise the social position of disadvantaged students is clearly a 'soft' control, although implicitly it includes the requirement

that a teacher should not accept expensive gifts from the parents.

This approach underpins that operation in compliance with values and principles can be promoted by integrity controls that are not based on legal regulation yet are mandatory for the organisation and its employees. The gift policy mentioned before is such an example, but there are other similar rules which ensure the transparent operation of an organisation, such as the requirement that the criteria for exercising equity right should be made public by the organisation.

Even in the case of controls required by law, it is reasonable to make a difference between an organisation that barely meets the legal requirements and one that exceeds the minimum expectations, thereby enhancing its organisational integrity. For example, an organisation may use a procedure that is more stringent and transparent than the legal regulation for public procurement. Why would it choose to do so? Because, while mapping corruption risks, it may realise that it needs to set more stringent rules than the legal norm in order to ensure effective protection against corruption risks.

Thus, there are at least three groups of integrity controls which, if they are in place, can ensure not only compliance but also integrity. These are the following:

- internal rules that are stricter than the mandatory level of regulation;
- mandatory internal rules that are not required by legal regulation;
- codes, statements, programmes, training courses, etc. which are the prerequisites for voluntary compliance with standards.

When assessing the maturity of the integrity control system – regardless of whether it is done as part of supervision, self-assessment or a survey – the above mentioned groups of integrity controls should be thoroughly examined.

THE PROCESS OF STRENGTHENING ORGANISATIONAL INTEGRITY

When can we say that an organisation has a mature integrity control system in place? When it is resilient to the threat of corruption and has introduced adequate controls to address risks that may violate integrity. Accordingly, it can only be established whether the level of integrity at an organisation is adequate if the organisation assesses, analyses and evaluates its integrity risks. It is based on this information that the adequacy of the integrity controls in place should be assessed. Below the paper provides a brief review of the process of strengthening organisational integrity. Consequently, we can get a better understanding of the logic of the integrity questionnaire, as several questions in the SAO survey are specifically designed to identify the level the organisation has been able to achieve in strengthening integrity.

Raising risk awareness

The first step in the reinforcement of an organisation's integrity is to identify the risks threatening integrity. Once the risks are identified, the organisation can establish which are the most important areas for integrity controls and what types of controls are needed in the specific areas in addition to those that must be developed and applied on a mandatory basis. The following could be an example for this.

A secondary school has won a significant grant in an EU tender for a development programme. This is a good thing in and of itself. However, money usually entails several corruption risks. For example, the organisation has to hire several external experts for the new tasks at hand. There is a real danger that some of the applicants will be collaborating

with a potential supplier. In order to guard against this kind of risk it is essential that the rules on conflict of interest applicable to the organisation's own employees are extended to external consultants as well, even though it is not required by legal regulation. It was not necessary before because the only external specialist the school engaged was a school counsellor. This example is intended to demonstrate that the adequacy of the level of integrity controls can only be assessed against the known integrity risks of an organisation; the greater the risk, the stronger the integrity controls should be.

Every public body performs some activities which may entail the danger of corruption since the institution provides services, awards support and issues permits for actors of the private sector. In addition, there are circumstances – such as a major restructuring – which may exacerbate the threat of corruption. Institutions of the public sector can take the first step towards preventing corruption by mapping such risks.

The introduction and strengthening of integrity controls

During the implementation of integrity controls the starting point is to lay down – and subsequently update on a regular basis – the mandatory rules that constitute a part of the internal control system. However, it is not enough to formulate the controls in writing; they should also work in practice. The safety belt installed in a car can only protect the passenger if it is fastened. Therefore, the actual functioning of the controls has to be monitored constantly. The survey gives a higher rating to the integrity of an organisation where disciplinary action has been taken in the past three years as compared to those where no such action has been initiated. Indeed, the former

indicates that the system of disciplinary action works in practice at the organisation.

The analysis of risks may point out that in certain cases the required rules are insufficient and stricter regulations are needed to prevent corruption. This may apply to the regulation of public procurement procedures, conflicts of interest or the disclosure of data.

The exploration of risks may warrant the formulation of internal policies not prescribed by legal regulations. An example for that is the gift policy of an organisation.

The set of tools that public bodies striving for strong organisational integrity should also include 'soft' integrity controls. Such controls have a dual function. On the one hand, they provide points of reference in cases not subject to clear mandatory regulation. For example, a clerk is expected to act without prejudice when proceeding in the case of his or her former classmate even though this is not listed among the examples of conflict of interest in the mandatory rules. On the other hand, they reinforce the use of mandatory rules, as employees observe the rules not only because they are afraid of punishment but also because they could identify themselves with their spirit.

In the case of 'soft' integrity controls, the starting point is the declaration of basic principles and values (enshrined in a public document), which are intended to guide the work of the organisation. These can include respect for human dignity, honesty, transparency, accountability, economic management of public funds, professionalism, only to name a few. The second step is to raise awareness⁷ about these values, for example by providing easy access to the relevant documents. Targeted training can also assist in raising awareness; moreover, employees and new entrants may be required to take a test on the proper knowledge of the values, or they can be asked to resolve case studies on the practical application of the organisations' values.

The final goal is to create an organisational culture which focuses on integrity. According to the literature, organisational culture is a set of presumptions, values, convictions and beliefs jointly interpreted and accepted by the members of an organisation. The values that constitute organisational culture are accepted as valid by the members of the organisation and are passed on to the new members as an example to be followed and as a desirable mentality and attitude for the resolution of problems. Consequently, in an integrity-oriented organisational culture employees take it for granted to refuse corruption, fraud and other incorrect behaviours.

WHY IS THE STATE AUDIT OFFICE OF HUNGARY COMMITTED TO THE APPROACH THAT FOCUSES ON INTEGRITY IN COMBATING CORRUPTION?

Even at an international level, audit offices (supreme audit institutions) are increasingly expected to stand up against corruption effectively. At the same time, audit offices do not have investigating powers in most countries. Therefore, in their audits they can only unveil presumably corrupt cases and forward them to

the investigating authorities. Although some of these cases are concluded with a sentence, it is clear that the mandate and tools of audit offices offers a limited opportunity for the detection of corruption. Therefore, it is understandable that audit offices turned their attention to the prevention of corruption.⁸ One of the most promising aspirations to prevent corruption is the SAINT model developed with the participation of the Dutch Audit Office for the Dutch public administration, which puts the reinforcement of the integrity of administrative bodies, and hence prevention, in the centre of the fight against corruption.⁹ This model was adapted by the SAO in the framework of the twinning light EU project¹⁰, which was followed by the development of the methodology of integrity assessment.

Table 2 summarises the differences between the traditional approach to the fight against corruption – which is aimed at detecting specific cases of corruption – and the approach that focuses on organisational integrity. The first important difference is that the integrity-oriented approach is involved in the detection and subsequently, the management of corruption risks rather than corruption itself. As a result, the objective of an integrity survey is not to establish whether a particular organisation

Table 2

MAIN FEATURES OF THE TRADITIONAL AND THE INTEGRITY-ORIENTED APPROACH TO THE FIGHT AGAINST CORRUPTION

Features	Traditional approach	Integrity-oriented approach
Subject of the fight	Corruption itself	Risk of corruption
Purpose of the fight	Disclosure of corruption	Prevention of corruption
Location of corruption	The entire country	The organisation
Main characters of the fight	Public authorities	Leaders of the organisation
Tools of the fight	Legislation, investigation, retaliation	Integrity controls
Results of the fight	Disclosure of corruption, sanctions	Strengthening the organisation's ability to resist corruption

Source: State Audit Office of Hungary

or a group of institutions is more corrupt than others but to identify which organisation or group of institutions is threatened by corruption to a greater or a lesser extent.

The other important difference is that in the case of the approach that gives priority to the reinforcement of organisational integrity, the fight against corruption is shifted from the national level to the level of individual public bodies. This can improve the effectiveness of the fight significantly, since it is not only a single authority that combats a multitude of unknown perpetrators but thousands of budgetary institutions (about 13 thousand in Hungary) take up the fight against corruption. In this approach, the leaders of these 13 thousand budgetary institutions are expected to develop a sound system of integrity controls in order to strengthen the organisations' resilience to corruption.

It is especially owing to this latter feature of the integrity-oriented approach that the SAO decided to choose the integrity survey; indeed, the SAO was able to reach 5,500–6,400 budgetary institutions annually by using this method. More than 1,500 bodies of the respondents have started to raise awareness about corruption risks and, as a result, commenced the strengthening of integrity controls. The current status of this process is presented briefly in the section below, based on data collected from the 1,500 budgetary institutions completing the SAO integrity survey in 2013¹¹.

THE INTEGRITY CONTROL COVERAGE OF THE HUNGARIAN PUBLIC SECTOR

Identification of corruption risks

Corruption risk implies the real or presumed opportunities arising in the course of the organisation's cooperation with other persons or

organisations that may provide the cooperating party with unlawful advantages and inflict damages on the given organisation or, in a broader sense, the entire public sector. This can be material damage, or damage affecting the quality of services or leading to the loss of confidence. Within this general interpretative framework, the legal status and scope of responsibilities of the given institutions serve as a basis for determining when and in relation to which activities (for instance, exercising executive power or the allocation of public assets) the threat of corruption is present. This is called inherent vulnerability. In addition, there are other factors related to operation (such as transformation or the winning of external financial support) which, irrespective of the type of the institution, may increase vulnerability to corruption. These are called factors exacerbating corruption threats. These threats can be addressed by introducing and operating risk mitigating controls. Founded on these theoretical grounds, the survey with 155 questions was designed to identify the inherent vulnerability factors (30 questions), the factors exacerbating corruption threats (64 questions) and the controls mitigating corruption risks (61 questions). Based on the scores for each group of questions, the programme calculates three indicators:

The Inherent Vulnerability Factors (EVT) index is designed to measure the inherent vulnerability components that depend on the legal status and responsibilities of organisations. It is defined by factors the shaping of which belongs to the legislative competence of the founding body, such as public authorities' application of law or the provision of various 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.

The Factors of Risk-Reducing Controls (KMKT) index expresses whether the given organisation has established institutional controls in place, and whether these controls actually work and fulfil their role.

All three indicators are expressed in percentages. In the first two cases, the higher the value of the index, the greater the corruption vulnerability of the given organisation. The higher value of the third index indicates that a broader range of corruption risk mitigating controls are in place.

Table 3 indicates the mean, the minimum and the maximum values of the corruption

risk indicators (EVT, KVNT) broken down by institution type.

The data in the table reveal that the corruption risks significantly differ not only for specific institution types but also within each type of institutions. It is important to stress that the high level of corruption risk is not a negative feature for an organisation but a condition, of which both the management and the employees of the organisation should be aware. The reinforcement of integrity is an essential precondition for the identification of risks as management can only mitigate the risks, that is, the probability

Table 3

CORRUPTION RISK INDICATORS BASED ON THE 2013 SURVEY BROKEN DOWN BY INSTITUTION TYPE (%)

	EVT			KVNT		
	mean	minimum	maximum	mean	minimum	maximum
Primary schools	13.0	2.1	45.7	15.5	4.1	37.5
Nurseries, kindergartens	11.2	1.4	28.6	12.5	3.0	34.3
Healthcare institutions	21.5	8.8	49.3	33.6	6.8	65.9
Other administrative institutions	30.1	5.0	77.1	25.9	5.4	54.1
Other institutions	16.9	10.7	22.1	19.2	5.8	38.5
Other education	14.6	6.4	41.4	20.8	8.6	43.6
Higher education	23.2	12.9	32.9	51.6	30.1	75.3
Independent government bodies	27.4	12.1	45.7	30.7	22.6	46.9
Local governments	56.0	1.4	87.9	27.0	5.3	67.9
Judicature	31.5	10.7	60.7	26.8	11.5	46.0
Government bodies	55.7	18.6	82.1	44.1	34.0	60.0
Secondary schools	16.0	7.1	43.6	19.2	7.1	44.3
Cultural institutions	15.3	1.4	22.9	21.8	11.5	32.8
Defence and law enforcement	40.7	10.0	82.1	32.8	15.2	60.1
Sports and recreation	14.5	5.7	25.0	16.8	5.4	30.1
Institutions providing social services	15.3	3.6	52.1	19.4	6.8	35.2
Regional administrative bodies	61.6	18.6	87.7	37.2	24.0	53.4
Scientific research and development	20.8	10.7	48.6	28.0	14.5	37.7
The entire population	36.9	1.4	87.9	24.6	3.0	75.3

Source: State Audit Office of Hungary

of the emergence of a corruption event, if it is aware of such risks.

In view of the crucial importance of mapping risks, the integrity survey of the SAO uses several questions to test whether the budgetary institutions perform risk analysis and how its results are utilised. (When planning internal audit tasks, the use of risk analysis is mandatory; therefore, the questionnaire asks whether any additional risk analysis is applied). The questions and the ratio of positive answers are shown in Table 4.

The data in the table demonstrate that less than 40 per cent of the budgetary institutions perform regular risk analysis, and the ratio of institutions that regularly perform specific corruption risk analysis is especially low (5.3 per cent).

Level of regulation

The level of regulation is a necessary condition for integrity. Therefore, the survey asks about the presence of a number of basic internal rules. The mean values of the answers to eight such questions are summarised in Table 5.

A ratio of ‘yes’ answers over 90 per cent may suggest that in general, most of the institutions

in the public sector have basic internal rules in place. At the same time, it is noteworthy that even with voluntary data supply there are 100–200 budgetary institutions which admittedly do not have up-to-date policies for their operations.

The picture reflected in the survey is even more unfavourable in respect of the enforcement of important specific rules, as shown by the following example. The survey also inquired about the enforcement of certain basic provisions of the government decree on internal audit. The answers to this question are shown in Table 6.

Responses reveal that nearly 20 per cent of the budgetary institutions participating in the survey do not ensure the independence of internal audits. The functioning of internal audit does not comply with basic legal requirements at more than 30 per cent of the respondents; consequently, they are unable to stand up against corruption threats effectively.

Regulation exceeding the mandatory level

The effort to strengthen organisational integrity is the most apparent when an organisation introduces rules for mitigating corruption

Table 4

QUESTIONS ON RISK ANALYSIS AND THE RATIO OF POSITIVE ANSWERS

Question	Ratio of respondents saying ‘yes’ (%)
Does your organisation perform systemic risk analysis other than planning internal audit tasks?	38.2
If your organisation performs systemic risk analysis, do you record the risk factors identified during risk analysis in any database?	61.9
If your organisation performs systemic risk analysis, do you evaluate risk analysis findings?	90.2
Does your organisation regularly perform corruption risk analysis?	5.3

Source: State Audit Office of Hungary

Table 5

QUESTIONS ON THE BASIC LEVEL OF REGULATION AND THE RATIO OF POSITIVE ANSWERS	
Question	Ratio of respondents saying 'yes' (%)
Does your organisation have effective and updated Rules of Operation and Organisation (ROO)?	97.6
Did you adjust the job descriptions of all affected employees to comply with the amended internal policies since the latest ROO amendment?	91.0
Does your organisation have a filing (archiving) policy that is consistent with the relevant laws?	96.2
Does your organisation have a payment policy that is consistent with the relevant laws?	92.8
Does your organisation have a data management policy that is consistent with the relevant laws?	91.0
Does your organisation have an IT policy that is consistent with the relevant laws?	63.7
Does your organisation have an effective procurement policy for purchases below the public procurement value limit?	66.9
Does your organisation perform internal auditing?	92.2

Source: State Audit Office of Hungary

Table 6

ENFORCEMENT OF THE BASIC RULES OF INTERNAL AUDIT AT THE PARTICIPATING INSTITUTIONS WITH AN INTERNAL AUDIT SYSTEM	
Question	Ratio of respondents saying 'yes' (%)
Is the independence of internal audit ensured?	81.5
Does the qualification of internal auditors fully comply with the provisions of regulations?	92.7
Does the organisation have an accepted strategic audit plan?	65.0
Does the organisation have accepted annual audit plans?	91.6
Does the organisation perform regular risk analysis to substantiate audit plans?	64.0
Were action plans drafted in a documented manner in response to internal audit recommendations?	66.2

Source: State Audit Office of Hungary

risks that are not required by legal regulation. Therefore, the survey asks about the presence of a number of such rules. (The assessment is rendered somewhat more difficult by the fact that certain institutions – for instance law enforcement bodies, courts and government bodies – have mandatory rules, such as the

regulation of conflict of interest, that are not required by law for other types of institutions). *Table 7* includes a few of these questions and shows the ratio of budgetary institutions participating in the survey that gave a positive answer to each question.

Data in the table suggest that there are very

Table 7

RATIO OF ORGANISATIONS APPLYING NON-MANDATORY RULES THAT ENHANCE INTEGRITY

Question	Ratio of respondents saying ‘yes’ (%)
Does your organisation have an internal policy for protecting whistleblowers within the organisation?	23.6
Does your organisation regulate the conditions of accepting various gifts, invitations and trips?	17.7
Does your organisation have a special policy for the conditions of hiring external experts?	12.7
If your organisation applies equity, does it make its official assessment criteria available to clients in advance?	87.0
Does your organisation have workplace rotation in place?	11.8

Source: State Audit Office of Hungary

few budgetary institutions that formulate rules that are not required by law. In many cases, this entails a severe shortcoming. There are many organisations that employ a wide range of external experts, yet they do not regulate the conditions for engaging such experts. The same applies to the regulation of gifts, which is not typical at all even at types of institutions where, according to public opinion, the provision and acceptance of gifts is fairly common.

At the same time, the greatest success of the series of surveys is related to this particular issue. The success is connected to the question “If your organisation applies equity, does it make its official assessment criteria available to clients in advance?” In the first survey only 41 per cent of the respondents answered ‘yes’ to this question. A year later the number of positive answers doubled. The improvement was apparent even in our 2013 survey, in which we found an additional 5 percentage point increase. This spectacular improvement led us to the conclusion that the survey had directed the attention of institution leaders to the corruption threats stemming from the lack of publicity regarding the exercise of equity. As the question asked in the survey designates the

tool for mitigating the risk, namely, publicity, the use of the suggested control had become widespread in the span of two years.

The use of ‘soft’ integrity controls

The survey also contains questions about integrity controls which do not materialise in the form of mandatory rules but contribute to the mitigation of corruption risks in some other way. These are called ‘soft’ integrity controls.

The code of ethics is the most often cited example for this. However, it cannot be seen as a typical ‘soft’ integrity control in the Hungarian regulatory environment. This is because on the one hand, the creation of ethical rules is required by law at the institutions in the public sector (although they do not have to be laid down in the form of a code of ethics). On the other hand, several ethical policies in the Hungarian public sector have binding force and those violating them can expect to face severe sanctions. Still, only 29.5 per cent of the participants of the 2013 survey have a code of ethics. However, we found marked differences among the various types of institutions. The leader of the pack was the

defence and law enforcement group with 85.7 per cent. Of the independent government bodies there was only one organisation that did not have a code of ethics. On the other hand, the number of organisations with a code of ethics is surprisingly low in the group of local governments (18.2 per cent) and regional administrative bodies (20.8 per cent).

As it is difficult to identify the truly ‘soft’ integrity controls in a survey, the number of questions pertaining to ‘soft’ integrity controls is very limited. The relevant answers are summarised in Table 8. The values and principles to be followed can be best formulated in a strategy disclosed to the public. Only slightly more than half of the responding budgetary institutions had such a document. The number of organisations actually using ‘soft’ controls was reduced even further when asked whether the strategy of the organisation contained any of the following: improvement of organisational culture, reinforcement of integrity, fight against corruption. Only 59 per cent of the organisations with a strategy answered ‘yes’ to this question. By multiplying these two percentages we found that 30 per cent of the budgetary institutions had declared strategic objectives featuring one or more of the topics of improvement of organisational

culture, reinforcement of integrity, fight against corruption.

The low ratio of institutions that provide anti-corruption training (12.5 per cent) also confirms that only a few budgetary institutions consider the fight against corruption a priority. One of the most important areas of the prevention of corruption is human resources policy, and some of its tools can also be regarded as ‘soft’ integrity controls. A well-balanced performance evaluation system that can reward behaviour which complies with the values of organisational culture contributes to the reinforcement of organisational integrity. On a positive note, two-thirds of the respondents operate a performance evaluation system. (Unfortunately, there is no question in the survey on whether the organisations take into account behaviour that meets the requirements of organisational culture when evaluating performance).

SUMMARY

The data presented above clearly demonstrate that the development of an integrity-oriented organisational culture is at an early stage in the Hungarian public sector. At the same time, it is encouraging that a growing number

Table 8

RATIO OF ORGANISATIONS USING ‘SOFT’ INTEGRITY CONTROLS TO ALL RESPONDENTS

Question	Ratio of respondents saying ‘yes’ (%)
Does your organisation have a strategy disclosed to the public?	51.0
If your organisation has a strategy disclosed to the public, does it include any of the following: improvement of organisational culture, reinforcement of integrity, fight against corruption?	57.0
Did the organisation’s staff receive anti-corruption training in the last 3 years?	12.5
Does your organisation operate an individual performance assessment system?	66.9

Source: State Audit Office of Hungary

of public bodies have become committed to introducing a culture of integrity. It is important to emphasise that this learning process takes years to accomplish. It is by no accident that, according to the SAO's plans, the integrity survey will be conducted for a period of seven years as it takes at least this length of time for organisations to develop

an effective integrity management system after having raised awareness about the risk of corruption. At the same time, the SAO does not only use this survey to strengthen integrity in the public sector but also to check, during its audits, whether the integrity controls of the audited organisations are strong enough to tackle the corruption threats they face.

NOTES

- ¹ Báger, Gusztáv – Korbuly, Andrea – Pulay, Gyula (2008)
- ² SAO Project Integrity Office (2011)
- ³ Section 2 a)
- ⁴ The scope of the government decree only applies to organs of public administration.
- ⁵ The English term 'soft control' should perhaps be translated into Hungarian as 'lágý' rather than 'puha kontroll'. The term 'puha' suggests something weak and feeble in Hungarian. In contrast, the word "lágý" means something plastic and flexible that can adjust to its environment. It brings to mind the soft rubber coating of table tennis rackets designed for better control and more accurate hits. Soft integrity controls – such as the recommended rules of a code of ethics – mean something similar, as they can exert a beneficial influence even in situations that are beyond the scope of hard controls. Such controls include, for example, novel and hence, unregulated decision-making situations where it is important that the decision made by the employee is fair and in line with the employer's set of values.
- ⁶ Chtiouia, Tawhid – Thiéry-Dubuisson, Stéphanie (2011)
- ⁷ For more detail see Pulay, Gy. (2011)
- ⁸ For details see An UN-INTOSAI Joint Project (2013)
- ⁹ For details see Klotz, Péter – Pulay, Gyula (2011)
- ¹⁰ For details see Báger, Gusztáv – Korbuly, Andrea – Pulay, Gyula (2008)
- ¹¹ The papers providing a detailed analysis of the survey's findings are available on the integrity page of the SAO website: www.integritas.asz.hu.

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