



Final study report Twinning light project

Corruption Risk Mapping in Hungary

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1 Introduction

The State Audit Office (SAO) of Hungary has emphasized the need for increasing the fight against corruption and improving the transparency and accountability of the public sector on several occasions, on various national and international forums. Although the fight against corruption is not explicitly defined among the mandate of the SAO, by means of its audits, it may significantly contribute to the provision of decision-makers with valid information in this respect. The SAO facilitates the decision-making activity of the Parliament and parliamentary committees by its audits and findings; it publishes its reports and sends the same to the government agencies concerned as well.

The SAO of Hungary plays an active role in anti-corruption efforts and encourages the further development of the anti-corruption policy of the Hungarian Government. In accordance with the 1023/2001 (III.14.) Government Decree the SAO participated in the work of the "Advisory Committee" for establishing corruption free public life. In the Government's former action plan of fight against corruption the development of the controlling activities and transparency were very important.

Against this background the SAO has taken steps to initiate an EU funded Twinning Light project focusing on the development of a corruption risk mapping methodology to further promote the anti-corruption efforts in Hungary. The Netherlands Court of Audit (NCA) has agreed to be partner in this project and to share its knowledge and experience in this field with the SAO.

The specific objectives of the project were to develop an assessment and mapping methodology for corruption risks in the public sector of Hungary. The result of the project will also help to make recommendations to the Hungarian Government concerning the anti-corruption measures to be taken.

This final study report provides an overview of the most important results of this project and describes the developed methodology and its implementation strategy. The report also summarises the recommendations for the anti-corruption strategies of the Hungarian government, resulting from the project.



2 Corruption in Hungary

2.1 Main corruption issues

2.1.1 Level of corruption

In the Transparency International (TI) Corruption Perceptions Index (CPI) Hungary's ranking and scores have remained almost unchanged in the last six years (see Table 1).

Table 1: TI Corruption Perceptions Index (CPI) Hungary

	Score*	Confidence Range	Ranking	Number of countries on the list
2001	5,3	4.0-6.2	31	91
2002	4.9	4.0-5.6	33	102
2003	4.8	4.0-5.6	40	133
2004	4.8	4.6-5.0	42	146
2005	5.0	4.7-5.2	40	159
2006	5.2	5.0-5.4	41	163
2007	5.3	4.9-5.5	39	180

* on a scale from one to ten, a country completely free from corruption could get 10 points

According to the 2006 Gallup Corruption Index (GCI) Hungary is ranked 78th (with a score of 84 on a scale of 1 to 100). Hungary is perceived as less corrupt than other Central and East European transition countries covered by the surveys, except Estonia, Slovenia and the Czech Republic. According to the Business Environment and Enterprise Performance Survey (BEEPS) conducted by the World Bank, 10 per cent of firms say that unofficial payments are frequent (half of the figure of 2002), and 25 per cent of firms indicated corruption as a problem when doing business (20 per cent in 2002).¹

¹ Corruption risks in Hungary National Integrity System Country Study Transparency International 2007. p. 23



2.1.2 The possible reasons for corruption

The possible reasons for corruption have analysed in many surveys. The Hungarian SAO also prepared summing-up papers that evoke great interest - analysing the reasons for corruption, indicating the risks, tendencies. Based on SAO's surveys - and in harmony with the conclusions of several, international surveys - the main reasons for corruption are the lower level of economic development, lack of democracy and social acceptance.

Economic development

In order to illustrate the statistical correlation between corruption and the economic development, the SAO analysed the GDP statistics of the World Bank national account (SNA) and the Corruption Perceptions Index of the Transparency International for drawing consequences:

We can say that the value of corruption indexes are considerably correlated to the level of economic development, i.e. in case of lower level of economic development the corruption is higher.

Lack of democracy

According to the SAO's analysis, it is obvious that corruption is mostly insignificant where *democracy* is real and a political rotation system exists, where reforms are introduced, where nobody can be certain that his activities, misuse of power, remain in secret forever.

Social acceptance

The third group of reasons for corruption can be characterised by how individual corruption phenomena is *accepted and tolerated by the society*, by the system of values and how, in what direction it changes.

Analysing the various factors collectively a trend appears, whereby there is an inverse relation between the level of corruption and socio-economic development, but a direct correlation with the autocratic nature of the state apparatus. In the latter case the reason for this is that keeping the fundamental human rights (getting passport, moving, police actions) is also often connected with "baksheesh". Thus it is not by chance that according to international surveys corruption is the lowest in the countries of Northern Europe. The 'contamination' of Central European countries less developed than Hungary is significantly higher.²

² Báger-Kovács: Corruption and the Options of the Activities of the State Audit Office Development and Finance 2005/3 p. 41-42



2.1.3 Areas of corruption

To understand the problems of today we have to make reference to the main features of corruption over recent decades – primarily related to deficit management. The state structure preceding the change of system in 1990 provided wide opportunities to individuals and small/large groups to assert their interests in a different way to the accepted norm when distributing and acquiring public monies.

Certain sources and risks of corruption were mitigated during the transition (e.g. active bribery of civil servants), but new situations emerged offering wider opportunities for economic irregularities than before. When looking at corruption risks we have to highlight the enterprises previously not working in the form of companies and the privatisation of state property they held. The changes in the content of corruption risks can easily be traced through the process of state property privatisation which finally drew to a close at the end of the 1990s in Hungary.

The new corruption risks arising in conjunction with the market economy and the related development of public finances principally prevail in the following three areas based on the experience of audit office investigations. These are:

1. Public procurement
2. Internal control functions
3. Financing of political parties

Public procurement

The main risk factors of the system operation – based on the SAO audit experience – can be grouped as follows:

1. *Internal institutional rules designed to facilitate local application of the laws are deficient.* There is insufficient harmony between public procurement regulations and other provisions of budget financing, the conditions for bidding in and using the various aid systems.
2. *Those applying the law are not sufficiently prepared and the personnel and material conditions for ensuring compliance with the laws are inadequate.* There is a high degree of resistance from institutions with regard to centralising local procurements. The underlying misapprehension here is that implementing purchases in this way distorts their independence.
3. *The mitigation of corruption risks was impeded by the limitations of financial control or the prevailing bastions of protecting business secrets.* The SAO was restricted in investigating price calculations, background relations, cartel agreements, etc.

It appears that by removing these shortcomings most of today's corruption risks evident in the field of public procurement can be moderated (in this respect the



so-called "glass pocket law" adopted in 2003 is forward facing, based on which the path of public funding to the "end-users" can be traced).

Internal control functions

The other large area of corruption risks is the weakness and inadequate function of internal control.

In Hungary the existing internal audit apparatus in public sector organs and institutions essentially disintegrated following the change in political and economic system. Their renewal was hampered for a long time by unfounded hopes being attributed to the possibilities of external (principally audit office) auditing and the self-regulating mechanisms of the liberalised economy. So the fact that the internal audit system adjusting to the new circumstances developed more slowly than was otherwise possible is also attributable to the attitudes and approaches adopted.

Urgent task is still improving the efficiency of the system-based operation of public financial control (audits by the state audit office, by the government and by the internal audit units of the institutions), better coordinating with the various levels, adapting them to each other and creating the necessary conditions for co-operation and the mutual utilisation of experiences.

Financing of political parties

One specific corruption risk is linked to the financing of political parties. The creation of laws governing the operation of political parties and the co-ordination of elections was forward facing at the time and facilitated the development of transparent financing for the system of political institutions. Yet the reviews carried out in the intervening period have highlighted many problems and the gradual obsolescence of certain laws. Today the main risk factors are the following. Owing to the shortcomings in legislation, the operation of companies – and their partners – founded by political parties are not transparent, nor is the business of 'fund-raising' foundations organised by the private sector for the purposes of providing political support. The current restrictions on authority (private sector) mean that control over them has yet to be resolved. The situation is similar for the accountability of the election campaign.³

The need to create a new election law that ensures the transparency of campaign financing has also clearly been proven. The SAO also prepared recommendations regarding the amendment to the Act on the election procedure, which hopefully contributes to the improvement of the transparency and accountability of campaign expenses.

Other significant corruption risks can be detected in other areas that may vary in the different regions and areas. The existing risks could be varied, transformed to another type of risk in accordance with the social economic changes.

³ Báger-Kovács: Corruption and the Options of the Activities of the State Audit Office Development and Finance 2005/3 p. 44-46



According to the Transparency International National Integrity System country study the most common forms of corrupt practices in Hungary are of an administrative nature or stem from the symbiosis of political and economic interests.

Public officials, such as police or customs officers are often reported and caught on fraud charges. In the public health-care system a number of state-employed doctors use public hospital equipment and facilities for private profit. 77 per cent of survey respondents thought it was 'typical' for patients to give a gratitude payment or tip to hospital doctors for services to which they are entitled, and in most cases this practice is not viewed as unlawful either by patients or doctors themselves. The public associates policemen (especially in relation to traffic control, policing tax fraud and drugs) and tax, custom and excise administrators with corrupt behaviour. 39 per cent of respondents consider it normal practice to pay a bribe to avoid a fine for traffic offences, and 28 per cent think it 'typical' to pay extra for importing or exporting goods. It is common to pay for speedy registration at the land registry or for faster service from licensing authorities especially in traffic administration.⁴

2.2 Anti-corruption policies and strategies

2.2.1 Historical background

The various government-initiated anti-corruption programmes in Hungary are partially the result of international pressure. The most influential source of pressure is the European Union (EU). While seeking EU membership, Hungarian governments participated in several anti-corruption actions initiated by the EU.

⁵According to the overall conclusion of 2003 Comprehensive monitoring report on Hungary's preparations for membership by EU the fight against corruption should continue to receive high priority. Although according to independent assessments Hungary ranks among the less corrupt of the post-communist countries, surveys indicate that corruption continues to represent a serious problem in this country.

In **2001** a comprehensive **Governmental Strategy Against Corruption** was adopted. It included a wide range of proposals including a wide range of legislative instruments mainly concerned with conflicts of interest, property declarations, money-laundering, terrorism, and public procurement. The

⁴ Corruption risks in Hungary National Integrity System Country Study Transparency International 2007. p. 24

⁵ Corruption risks in Hungary National Integrity System Country Study Transparency International 2007. p. 27



strategy, however, took the 'traditional approach' to combating administrative corruption by focusing primarily on punitive measures instead of prevention.⁶ In the past period the anti-corruption activity was based on 27 task points formulated in the Government Decree 1023/2001 (III.14.) on the government strategy against corruption. The Government Decree separately classified the general legal, criminal legal and the out-of-law anti-corruption tools. The Government Decree of really strategic importance was, however, only such a medium-term task plan to which no strategic document based on a situation analysis and also grounded in professional methodology respect was originally associated. Besides, the tasks defined in the Government Decree – particularly in respect of criminal regulation – have partly been implemented, however, the remaining tasks not solved so far need re-consideration in any case.⁷

Anti-corruption activities continued in 2002 with the establishment of the **State Secretariat of Public Finance**, designed to monitor public procurement procedures and ensure transparency in the handling of public finances. In 2003 the Parliament unanimously adopted the **Glass Pockets Act** to curb corruption by reinforcing guarantees of fair management of public expenditure and public property. The initiative was in general positive but the subsequent implementation of the Act has been patchy.⁸

In 2003, a short-lived anti-corruption **Ethics Council of the Republic** was set up by the prime minister to propose anti-corruption legislation and a code of conduct for the civil service. A year later the State Secretariat of Public Finances and the Ethics Council were disbanded.⁹

In 2004 the Government established a high level inter-ministerial reconciliation committee under name "**Advisory Board for the Corruption-free Public Life**" with intention of coordination between the organizations affected in the action against corruption. This board has established for the purpose of supporting enforcement of the anti-corruption government strategy, and monitoring, analysing the results of public opinion polls and other researches.

From 2007 a new strategic approach has been prevailing as a result of which the Government Decree 1037/2007 (VI.18.) Korm repealing the Government Decree of 2001 was enacted, the Advisory Board for the Corruption-free Public Life was terminated and on 6 September 2007 the **Anti-Corruption Coordination**

⁶ Corruption risks in Hungary National Integrity System Country Study Transparency International 2007. p. 27

⁷ DRAFT ANTI-CORRUPTION STRATEGY made on the basis of Point 1 of Government Decree 1037/2007 (VI. 18.) on tasks relating to fight against corruption *Version 4.0* Ministry of Justice and Law Enforcement (IRM) January 2008 p. 6,

⁸ Corruption risks in Hungary National Integrity System Country Study Transparency International 2007. p. 27-28

⁹ Corruption risks in Hungary National Integrity System Country Study Transparency International 2007. p. 28



Board (ACCB) was established which performs its activity now on the basis of publicity and professional partnership.¹⁰

2.2.2 Present situation

The main task of the ACCB is to prepare an Anti-corruption Strategy and short-term Anti-corruption action plan. The ACCB involves not only the government but non-governmental public organisations (including SAO) and representatives of civil society as well in this work. The new anti-corruption programme is expected to be an important step towards a widely accepted national strategy against corruption. The chairman of the ACCB is the Minister of Justice and Law Enforcement.

The staff of the Ministry of Justice and Law Enforcement in accordance with the guidelines and under professional supervision of the ACCB prepared the draft of the Anti-corruption Strategy and short-term Anti-corruption action plan. Already the 4th version of the draft anti-corruption strategy had been discussed and accepted by the ACCB.

2.2.3 Anti corruption activities of the SAO

The SAO takes part in combating corruption in *three ways*.

First: during its audits SAO pays special attention to the identification of corruption risks and points them out.

Second: SAO has also prepared several, summing-up papers that evoke great interest - analysing the reasons for corruption, indicating the risks, tendencies.

Third: in well-founded cases SAO initiates the sanctioning of committed crimes.¹¹

Audit activity of the SAO

Sound state financial management is one of the most important opportunities to prevent corruption. This is also a condition for a successful fight against corruption. The role of SAIs in the fight against corruption is also connected with this fundamental state interest. The Hungarian SAO audits the four sub-systems of the finances of the State: management of the central budget, local governments, Social Security and earmarked State funds. Furthermore, the SAO must, by law, audit the management and financing of political parties, business chambers and civil organisations subsidised by the State.

¹⁰ DRAFT ANTI-CORRUPTION STRATEGY made on the basis of Point 1 of Government Decree 1037/2007 (VI. 18.) on tasks relating to fight against corruption *Version 4.0* Ministry of Justice and Law Enforcement (IRM) January 2008 p. 19,

¹¹ Báger-Kovács: Corruption and the Options of the Activities of the State Audit Office Development and Finance 2005/3 p. 42-43



As a result of the audits, the SAO prepares and submits proposals. During the audits performed in the previous years, the SAO recommended several amendments to the legal regulations in order to prevent deficiencies, errors and irregularities, and enhance the transparency and efficiency of the utilisation of public funds. These recommendations were received positively by the auditees. Most of the budgetary institutions and local governments affected by the audits included the SAO's recommendations in their action plans.

SAO pays special attention to the identification and disclosure of corruption risky fields during the audit activity. During our audits we classify the transparency of the operation and the accountability of the management, thus drawing attention to corruption risks and the possibility of such acts.

Studies

The SAO also prepares comprehensive studies. Many of them search and analyse the reasons, causes for corruption and to indicate the respective risks and trends. Not only the Hungarian experiences but the international experiences and trends related to corruption are also evaluated in these studies.

Initiating criminal procedures

According to the Act on the Hungarian SAO if the auditor establishes well-founded suspicion of a criminal offence, he shall notify the competent authority – usually police or prosecutor office - of his findings without delay. Since 1990 the SAO started criminal procedure in several cases mainly because of suspicion of Infringement of Accounting Rules.

Since its establishment, the SAO has initiated criminal procedures in 74 cases which meant that a total of 131 suspicions of criminal acts have been reported.

2.2.4 Place of the project within anti-corruption efforts

SAO plays an active role in anti-corruption efforts. A representative of SAO took part in all anti-corruption government organisations, namely in the Ethics Council of the Republic, in the Advisory Board for the Corruption-free Public Life and takes part of the work of the ACCB. The draft Anti-Corruption Strategy of ACCB is to be built on the following overall objectives:

- winding-up of reasons of corruption (prevention of development of corruption situations)
- treatment of the corruption phenomena (consequent law enforcement).¹²

This Twinning project fits to the first overall objective of the draft strategy.

¹² DRAFT ANTI-CORRUPTION STRATEGY made on the basis of Point 1 of Government Decree 1037/2007 (VI. 18.) on tasks relating to fight against corruption *Version 4.0* Ministry of Justice and Law Enforcement (IRM) January 2008 p. 68.



3 Corruption and integrity

3.1 Introduction

Several definitions and approaches of corruption exist. Corruption may for example be defined in a narrow sense, as in the context of the penal law (bribery). However many policy makers and designers of anti-corruption strategies have discovered that such a narrow definition is not the best possible basis for prevention of corruption. If you look at the problem from this perspective, corruption as phenomenon is closely related to other types of undesirable events and behaviour. To prevent these undesirable events, it is important to have policies in place promoting good behaviour. In this way the scope has changed from fighting corruption to promoting good behaviour or 'integrity'. This focus provides a better perspective for a more preventative approach in which the protection of integrity in the public sector is the core issue.

3.2 Life cycle of anti-corruption policies

In the approach of government the shift of focus from narrowly defined corruption to a broader concept of integrity is usually a development process with some typical stages. In the past 20 to 30 years for example the Dutch government went through this process, but it is also recognisable in other countries.

The stages in the life cycle of anti-corruption policies may be summarised as follows.

1. *Ignoring / denying the problem*: In this stage the government is not devoting attention to the problem of corruption and has no policies to promote integrity. The existence of corruption and other breaches of integrity are a 'public secret', but it's considered embarrassing to discuss and address the problem. When incidents occur, they are handled silently avoiding (media) attention as much as possible.
2. *Awareness / 'wake-up call'*: At a certain moment in time an incident or scandal may suddenly raise public awareness of the problem. This may be regarded as a wake-up call for government that the existence of (wide-spread) corruption is evident and the problem can no longer be denied or ignored. In The Netherlands for example reports from the Intelligence



services noting the threat of infiltration of the 'underworld' in the 'upper world', raised public concern and was the starting point for government's integrity policies. Awareness may also be raised by external forces. In developing countries for example the influence and requirements of aid donors may have this effect. In Eastern European countries the conditions for accession to the EU may be a factor in this respect.

3. *Hard-line or compliance approach*: the initial response, once the government has become aware of the problem, is a typical hard-line approach. The focus is clearly on (criminal) law and regulations and repression of corruption. The general belief in this stage is that investigating, prosecuting and severely punishing corrupt people is the best approach to tackle the problem.
4. *Recognition of limitations of repression only*: In this stage the government gradually recognises that the repressive approach has its limitations. Despite the prosecution of a number of cases, it's difficult to find and tackle all incidents, because they are not always clearly visible. It may also be difficult to prove cases in a court of law. Although the prosecution of some cases may be successful, it does not prevent or deter others from committing the same offence. Using a Dutch saying this behaviour may be described as: "wiping up the water, while the water tap is still open".
5. *Focus on prevention / integrity approach*: Once it is recognised that prevention of integrity breaches is necessary, the government commences with implementing integrity policies and controls. Usually starting with the so called 'hard controls' (for example assigning responsibilities, internal controls, security and checks). In a later stage the importance of an 'ethical climate' and a positive culture is recognised. Government organisations then focus on the 'soft controls' (for example defining values, promoting an ethical culture and management attitude).
6. *Balanced approach: prevention / repression*: Ultimately the ideal situation of best practice may be attained. This best practice may be described as a well-balanced approach including preventative and repressive elements. This approach is also marked by continuous management attention for the issue, since it is a common pitfall to loose focus in case there are no recent incidents to be noted.

Although the stages are described in consecutive order, this does not mean that governments always follow this pattern. Due to institutional developments, governments may fall back into earlier stages of anti-corruption policies. It may therefore be a long road to travel and it requires careful steering to arrive at the ultimate destination.

To illustrate the shift in focus from the approach described in stage 3 to the approach in stage 5 the following table may be helpful.

The table compares the features of what is called the 'compliance approach' concept with the features of the integrity approach.



Compliance approach	Integrity approach
Negative approach	Positive approach
Rule based: imposed norms (law and regulations)	Principle based: shared norms and values (decency)
Hard controls	Soft controls
Opinion: people are generally bad	Opinion: people are generally good
Focus on tackling integrity violations	Focus on facilitating good behavior
Legalistic approach	Managerial approach
Repression/Reactive	Prevention/Pro-active

As mentioned before the current consensus among professionals is that a well-balanced mix of both approaches is essential.

3.3 The concept of integrity

The term integrity is derived from the Latin *in-tangere*, meaning untouched. In other words, it refers to something or someone that is untainted, intact and untarnished. It also refers to virtue, incorruptibility and the state of being unimpaired. Integrity is a hallmark that is used to assess a person or organisation's performance.

3.3.1 Responsibility for integrity

Civil servants act with integrity if they observe the values and standards of good administration. Integrity embraces not only the requirements of incorruptibility mentioned above but also such values as honesty, sincerity, sociability, neutrality, consideration, reliability, customer-focus, respect, objectivity and decency. A civil servant must take care to exercise his responsibilities and use the powers, information and resources at his disposal for the benefit of the public or the general interest he serves and behave correctly with his colleagues and the public.

The same is true of an organisation but an organisation must also do all it can to ensure that its personnel cannot succumb to temptation. It should, for example, design processes so that civil servants are not exposed to temptation, not make unreasonable or impossible (conflicting) demands on them, regularly and clearly remind the staff of the importance of integrity, ensure that managers set a good example, and create an open and transparent culture in which criticism is accepted, mistakes can be made and difficult questions can be discussed. In brief, the organisation must implement an effective integrity policy.

Integrity is therefore a product of good administration and good employment practices. Integrity risks might seriously undermine confidence in the organisation and thus in its image and continuity.



3.3.2 Precondition for government authority and public confidence

Integrity is a precondition for the effective and continuous performance of the public sector. A government that lacks integrity loses the confidence of the public and ultimately its authority. The public must be able to trust the government because it is the sole provider of many vital services, such as the issue of passports, licenses and subsidies. Owing to this monopoly and the public's dependence, the government must be unblemished and beyond all suspicion.

3.3.3 Integrity: not only laws and rules but also moral responsibility

Integrity means more than simply observing rules and laws. The law is a lower limit and a minimum moral starting point. Rules and laws cannot cover all situations. The tension is the greatest when rules are lacking or uncertain, such as in new, complex and changing situations. Precisely in such situations, civil servants must be able to form a morally acceptable opinion and act responsibly in accordance with the values and standards of good administration. They must also do so in situations in which they have discretionary powers.

3.3.4 Integrity policy: not only repression but above all prevention

Integrity policy calls for a combination of repression and prevention. On the one hand, an organisation must take measures if its staff acts inappropriately (repression). On the other hand, it must do all it can to remove temptations that might induce civil servants to act inappropriately (prevention). Priority should be given to prevention. Not only is it more effective but on balance the investment is many times smaller than the cost of repairing damage caused by inappropriate behaviour: "an ounce of prevention is worth a pound of care".

3.3.5 Integrity policy: not ad hoc but continuous

The attention paid to integrity must be permanent. If policy is made in response to incidents, it is by definition re-active in nature. If policy is scaled down when things are going well, the risk of incidents increases. In other words, integrity and integrity policy must be permanently embedded in the organisation and be a fixed part of the organisation's operational management and quality management. Integrity cannot be treated as a project because a project ends and is not continuous. Integrity must be a standard component in the management and policy cycle.



4 The concept of risk

4.1 Risk analysis

Risk analysis is a natural reflex in our daily lives. To a certain degree, we are programmed to analyse the inherent risk in every situation. Often we do so subconsciously, implicitly or even intuitively. We know from our own experience that we are almost continuously analysing and weighing up risks. Risk analysis can stop us doing things or change the way we approach them. It makes us more alert so that we can respond more quickly and thus help reduce the chance of misadventure. We assess the nature and seriousness of a risk so that we can take measures to avert it or mitigate its consequences.

Such exercises are important to us personally, but they are vital to organisations. All public organisations are vulnerable and are to some extent exposed to integrity risks. Organisations must be aware of their vulnerabilities and risks, so that they can take targeted measures. It is both illusory and undesirable to think that all risks can be averted or closed out. That would need so many rules and procedures that the organisation would no longer be able to function. Risk analysis can help decide what measures will help to reduce the risks for an organisation to an acceptable level.

4.1.1 Risks

Risks may be described as the likelihood or probability of a certain undesirable incident occurring multiplied by its impact or the damage it would cause ($\text{Risk} = \text{Probability} \times \text{Impact}$). The formulation of a concrete risk contains: undesired event (actor, action, time and place), the damaged interest and the damage caused.

An undesirable event is something that can happen to an institution, organisation or person and cause damage to a (desired) situation/ position. It is caused by specific circumstances and/or (un)deliberate action.

This damage can take different shapes and therefore pose different types of risks. For instance a political risk may be that a policy will not be accepted by parliament, a performance risk means that the organisation will not reach its objectives, a financial risk that an organisation may lose money. These risks can



be the consequence of either changing circumstances, a calamity, acts of people or acts of organisations. The consequences relate to organisations, institutions and/or people.

4.1.2 Integrity risks

An integrity risk is a possible undesirable event that damages the public sector. Damage in the public sector can be defined in terms of financial loss, the impairment of services provided to clients or members of the public, the waste of tax revenue, public loss of respect for or confidence in the government, political and administrative implications or a deterioration in the working atmosphere. The common denominator is that misuse of power damages the image of the public sector and undermines the public trust in and legitimacy of government.

For example if a huge sum is unduly paid to a friend of the director, this causes an irregularity and financial damage. If this incident gets known it also undermines the morale of the employees and damages the trust of the public in the institution. This will impair the public function of the institution.

4.1.3 Vulnerabilities

As explained in 4.1.1 concrete risks are specifically defined undesirable events, formulated in terms of actor, action, time, place and damage caused.

Vulnerabilities are defined on a higher level of abstraction, indicating areas where risks are more likely to occur. It's useful to focus on vulnerabilities, because it provides a good insight into potential problems and the ways to address them, without having to define all possible risks in detail.

From professional knowledge and experience it is known that some areas of activity in the public sector produce more integrity risks than others. These are inherently vulnerable processes or functions. For instance tax collection or granting of subsidies are more vulnerable to breaches of integrity than teaching or keeping archives. Processes in which there is intensive contact with "clients" (members of the public or businesses) appear to be more vulnerable to violations, because there are more opportunities and temptations. The same is true of processes that involve valuable public assets.

In addition to the characteristics of public sector activities, certain circumstances may increase vulnerability to integrity breaches. These so called "vulnerability increasing circumstances" are not integrity risks in themselves but they may increase vulnerability because:

- they increase the probability of an incident occurring;

- they increase the consequences (impact) of an incident (not only financially but also with regard to credibility, working atmosphere, relations, image, etc.).

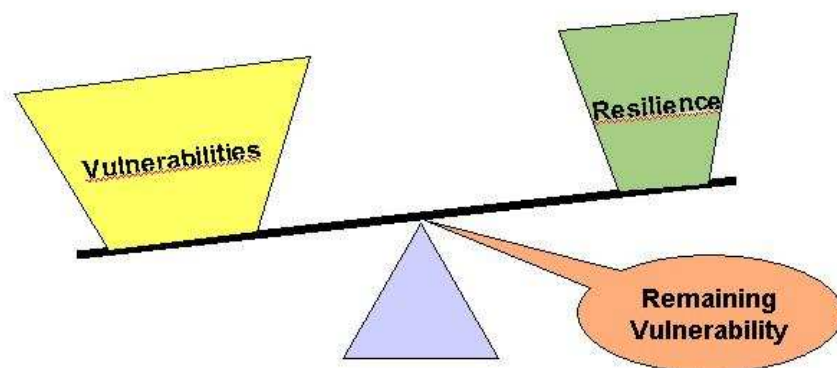
For instance in a complicated IT environment there are more opportunities to commit fraud. If this is the IT system for tax collection and adequate management is lacking, the consequences can be disastrous.

Together the inherently vulnerable areas and the vulnerability increasing factors constitute a 'vulnerability profile' for an organisation, entity or process.

4.1.4 Reducing vulnerability and risk mitigation

Organisations may cope with their vulnerability in different ways. First of all they may try to eliminate or reduce vulnerabilities by avoiding vulnerable activities. Sometimes it is possible to conduct activities in a different way thereby eliminating activities that are vulnerable to breaches of integrity. This means basically that the organisation is able to address the origin of the vulnerability. In practice however this will rarely be possible. Public organisations have certain obligations by law and cannot avoid engaging into sensitive activities. Inherent vulnerabilities are usually related to the task of a public organisation and vulnerability increasing circumstances are often (but not always) unavoidable.

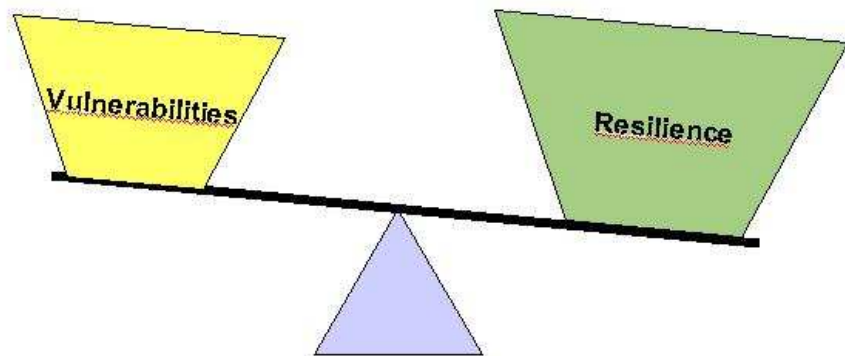
Usually a more viable way to cope with vulnerability is to design and implement compensating (integrity) controls. Since vulnerabilities are diverse in their nature it is important to design a well balanced set of controls or integrity control system. Depending on the 'maturity level' of then integrity control system the organisation is more or less resilient to the vulnerabilities it is facing. This may be illustrated by the following diagram picturing of balance or set of scales.





This diagram shows that the resilience is not fully balancing the vulnerabilities. This implies that there is still remaining vulnerability, indicating there is still room for further improvements.

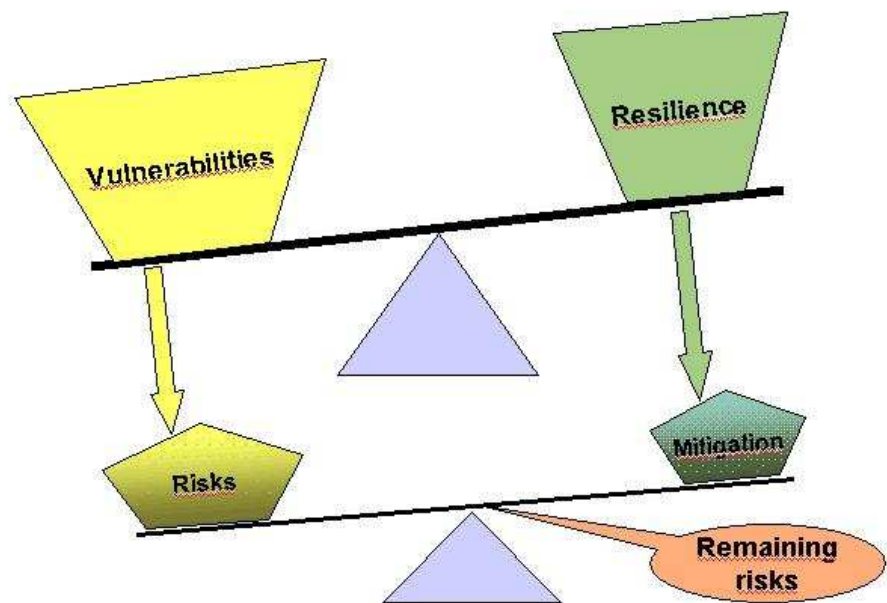
The next diagram shows another possible situation, but one that is not very likely to occur in practice. It illustrates the importance of a well-balanced approach, because an excessive implementation of integrity controls to counter vulnerabilities has to be avoided.



Up to this point the way organisations may address vulnerabilities is discussed. To cope not only with vulnerabilities, but also with more specific risks, it is necessary to analyse the exposure of the organisation to these specific risks as well. Ideally a complete analysis should encompass the:

- analysis of the organisation's *vulnerabilities* (vulnerable areas and vulnerability increasing factors);
- analysis of the *resilience* of the organisation to these vulnerabilities, which is determined by the maturity level of the organisation's integrity control system.
- analysis of the organisation's *specific risks*;
- analysis of the *mitigation* of specific risks by specific controls.

This may be illustrated by the following diagram.



This diagram shows that on the 'lower level' of specific risks there is still unbalance, indicating the existence of remaining risks not yet addressed.



5 Assessment methodology

This chapter describes the foundation and background of the assessment methodology. Users of the methodology should consult the separate manual for practical, step-by-step, guidance for the application of the method in self-assessments, surveys or audits.

5.1 Outline of the assessment method

(a) Analysis of object and its processes

The first step is to define and analyse the organisation or entity under assessment and its (primary and secondary) processes. Setting clear boundaries is essential for the focus of the assessment and the value of its results.

(b) Assessment of vulnerabilities (see 5.2)

In this step, an estimate is made of the vulnerability, i.e. the potential exposure to integrity violations, of the entity described in step (a). This step consists of three sub-steps:

1. relating the processes of the entity to an overview of processes in the public sector that are known to be vulnerable to breaches of integrity;
2. considering the presence or absence of vulnerability increasing circumstances;
3. producing an overview and overall assessment of the perceived vulnerability of the entity.

To support these three steps a scoring technique has been developed to provide guidance for determining the level of vulnerability.

(c) Assessment of the resilience or the maturity of the integrity control system (see 5.3)

In this step the maturity of the integrity measures that together form the organisation's integrity control system. The system is divided into 14 clusters, with the clusters being subdivided into three blocks. This step consists of the following four sub-steps:

1. brief introduction to the integrity control system, made up of measures, clusters and blocks;
2. brief introduction to the maturity levels;
3. the maturity level of all the measures is assessed by awarding them points;

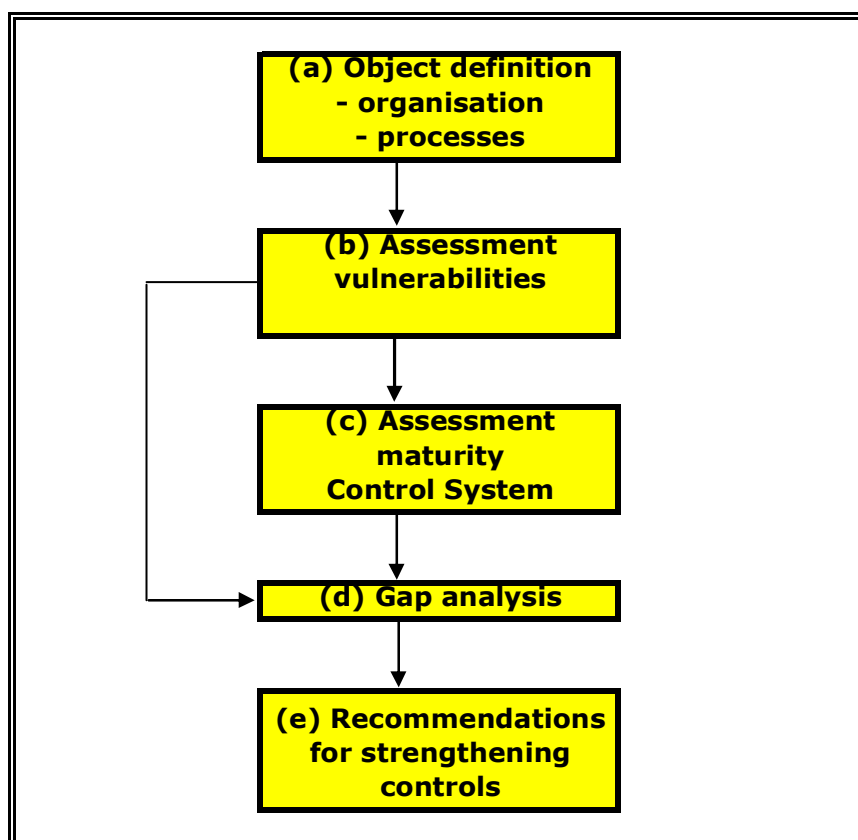
4. the scores are summarised to produce an average per cluster and block; this shows which clusters and blocks are relatively robust or weak.

(d) Gap analysis, assessment report and recommendations (see 5.4)

This final step is to establish the balance between the vulnerabilities (b) and the resilience or maturity level of the integrity control system (c). The analysis should clearly show the remaining vulnerabilities after the confrontation of the vulnerabilities and specific integrity risks with the relevant control measures in the integrity control system.

(e) The gap analysis provides input for the assessment report. The central question is which measures are the most appropriate to address the most important vulnerabilities. The results of this exercise are recommendations to strengthen resilience against integrity risks.

The following diagram presents a schematic overview of the assessment methodology.





5.2 Assessment of vulnerabilities and risks

As explained in chapter 4 we know from international literature and experience that some areas, activities or processes in the public sector are inherently more vulnerable to corruption, fraud or other breaches of integrity than other processes.

These vulnerable processes are summarised in the table below.

Vulnerable areas / activities / actions		
<i>Relationship between the government and the public/businesses</i>	Collection	assessments, taxes, import duties, excise duties, fees, charges
	Contracting	tenders, orders, assignments, awards, procurements
	Payment	subsidies, benefits, allowances, grants, sponsoring
	Granting / Issuance	permits, passports, driving licences, identity cards, authorisations, inspections
	Public services	health care, education, garbage collection, water supply
	Regulating	Design and implementation of new regulations, setting criteria
	Supervising and enforcement	supervision, control, inspection, prosecution, detection, justice, punishment
<i>Managing public property</i>	Information	national security, confidential information, documents, dossiers, copyright
	Money	treasury, financial instruments, portfolio management, cash/bank via budgets, premiums, expenses, bonuses, allowances, etc.
	Goods	buying / selling (auction), management and consumption
	Real estate	buying / selling (buildings, land)

In addition to these vulnerable areas there may be circumstances that have the effect of increasing the vulnerability. For the purpose of the assessment method we have identified the following five clusters of vulnerability increasing circumstances:

1. Complexity
2. Change / dynamics
3. Management
4. Personnel
5. Problem history

Per cluster examples of vulnerability increasing circumstances may be identified as in the table below.



1. Complexity
Innovation / advanced computer) systems
Complex or complicated legislation
Special constructions (legal / fiscal)
Bureaucracy
Networks of relations
Lobbying
Political influence / intervention
Mix of public-private interests (commerce / competition)
Need for external expertise
2. Change/Dynamics
Young organisation
Frequently changing legislation
Strong growth or downsizing
Privatisation / Management buy-out
Outsourcing
Crisis (reorganisation, threats with huge impact, survival of the organisation or job at stake)
External pressure (pressure on performance, expenditure, time, political pressure, shortages / scarce resources in comparison with duties)
3. Management
Dominant
Manipulative
Formal / bureaucratic
Solistic operation
Remuneration strongly dependent on performance
Lack of accountability
Ignoring advice / signals
Defensive response to criticism or complaints
4. Personnel
<i>Work environment / Loyalty</i>
Pressure on performance / income dependent on performance
Low status / lack of esteem/ low rewards/ low career prospects
Poor working conditions/ High workload
Group loyalty
Power to obstruct
<i>Individual</i>
Having other interests (side jobs etc.)
Personal debts
Lifestyle (overspending)
Personal secrets (vulnerable for blackmail)



Personal threats
Addictions (alcohol, drugs)
5. Problem history
Complaints
Gossip and rumours
Signals / whistle blowers
Earlier incidents (recidivism)
Administrative problems (backlogs, inconsistencies, extraordinary trends etc.)

Most of the examples in the table are self-explanatory. Many of the above mentioned circumstances or factors provide opportunity and/or motivation and/or rationalisation for corruption or other breaches of integrity. Other circumstances are known as indicators of a (potentially) weak integrity culture within an organisation.

It must be stressed that observing one or more of these circumstances does not imply that breaches of integrity are taking place. It merely implies that the organisation is more vulnerable and that there is a higher risk of integrity breaches.

5.3 Assessment of maturity level of integrity controls

5.3.1 Definition of maturity level

A key element of the methodology is the assessment of the “maturity level” of the integrity control system. The integrity control system is the body of measures in place to promote, monitor and maintain integrity. From the many measures known from the literature and practice to assess a system’s maturity, a keenly-balanced set has been selected for this assessment method.

The maturity assessment provides an insight into the resilience the organisation has already built up to integrity violations. In an ideal situation, the maturity level is based on:

- the presence of measures;
- the quality and suitability of the measures and their design;
- communication of the measures and the staff’s awareness of them;
- the acceptance of the measures;
- the embedding of the measures in the planning & control cycle;
- the quality of the measures’ implementation and enforcement;
- the supply of information and accountability for the implementation and effect of the measures;
- the evaluation and, where necessary, revision of the measures.



Since it would be too complex to include all these elements separately in the assessment method, a relatively simple classification has been developed consisting of the following four maturity levels and associated selection criteria.

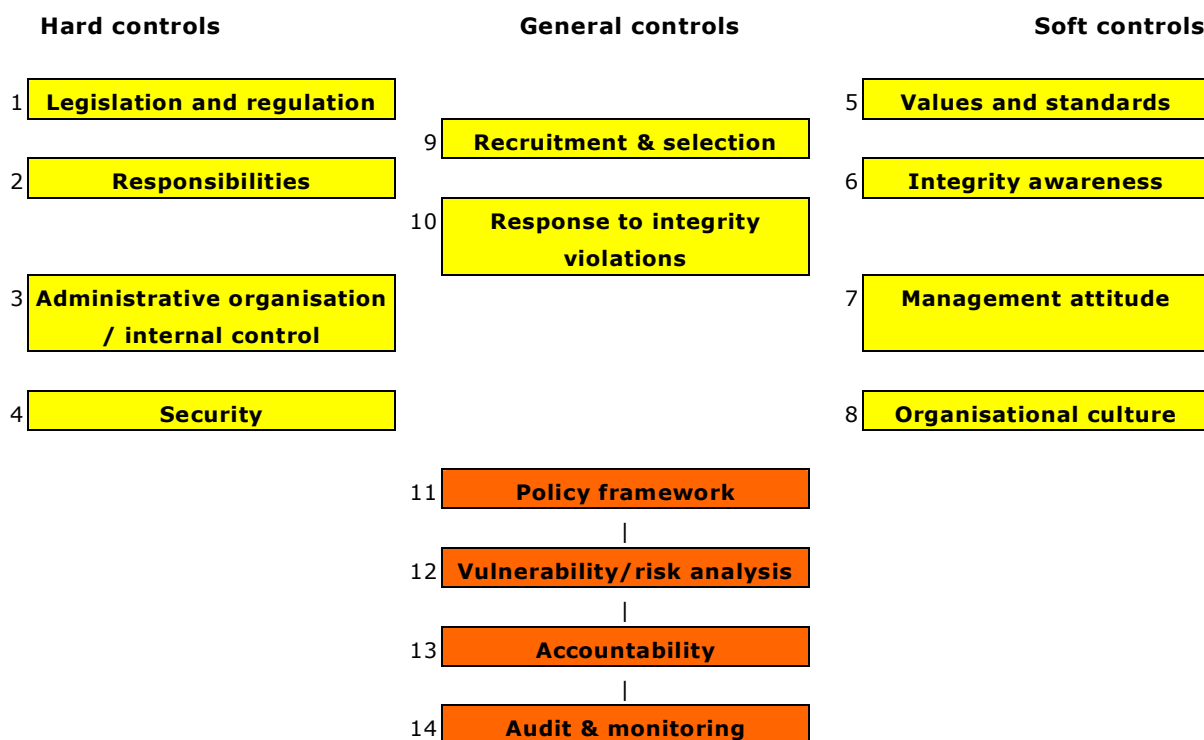
Level	Criteria
0	- The measure does not exist
1	- The measure exists - The measure is not implemented / not observed
2	- The measure exists - The measure is implemented / observed - The measure is not working / not effective
3	- The measure exists - The measure is implemented / observed - The measure is working / effective

The criteria help to assess the maturity level already achieved. In principle, the maturity level required is the highest level. In certain organisations, however, some measures will be less relevant or not applicable. This will become clear when the maturity level is scored and should be taken into account when the measures are prioritised.

The assessment of the maturity level considers all the measures relevant to the organisation and their effect. If the assessment method is applied to a department of a larger organisation, the measures applicable to the organisation as a whole are also considered as well as those in place specifically for the department.

5.3.2 Clusters of measures

The organisation's integrity control system is described using an extensive set of integrity measures divided into three main groups (general, hard and soft controls) and 14 clusters. The clusters are shown in the model below.



The *hard* controls are, as the term suggests, concerned chiefly with regulations, procedures and technical systems. The *soft* controls are designed to influence behaviour, working atmosphere and culture within the organisation. The clusters in the *general* controls category are more wide ranging or have a mix of hard and soft elements.

The next paragraph provides a brief explanation and the key questions related to the individual integrity control measures for each cluster. A more detailed explanation is included in the separate assessment methodology manual.

5.3.3 Explanation of the clusters of the integrity control framework

5.3.3.1 Legislation and regulation

Certain integrity rules are applicable specifically to public sector organisations. These are hard controls that all members of staff must observe. In effect, they are minimum standards. The precise regulations vary from one part of the public sector to another but some of the more common standards and rules are summarised below.

Key questions

Are rules in place (whether embedded in legislation or regulations) for:

Conflicts of interest

- external positions/financial interests?



- the acceptance of gifts/invitations?
- confidentiality?
- preventing “revolving door arrangements”?¹³
- external screening of contractors and/or licence applicants?
- lobbying?
- influence of politicians on civil servants?

Integrity within organisations

- combating/dealing with undesirable conduct (e.g. discrimination and intimidation)?
- expense claims?
- email, internet and telephone use?
- use of the employer’s property?

5.3.3.2 *Responsibilities*

To embed integrity management in an organisation, the responsibilities of the various positions and position-holders must be clear. If they are not, it will be uncertain who is involved in integrity management and who is responsible for it. Responsibilities should be placed with the regular functions in the organisation but it might also be necessary to create specific integrity management positions that have their own powers and responsibilities (counsellors, security officers, integrity coordinators, etc.).

Key questions

- Are (functional) responsibilities assigned for integrity?
- Is there systematic consultation between officials responsible for integrity?
- Is there an integrity counsellor (e.g. for providing advice to organisation’s staff on integrity issues)?
- Is there periodic coordination with outside organisations and external stakeholders?
- Has someone been appointed to coordinate integrity policy (externally)?

5.3.3.3 *Administrative organisation and internal controls*

The administrative organisation and internal controls are designed to control processes and generate reliable information (complete, accurate and valid) on them. Although the administrative organisation is not exclusively and specifically directed at integrity, many of its procedures and controls are concerned with integrity. It is therefore important that the administrative organisation and internal controls are optimally designed for integrity purposes with a view to prevention (e.g. removing temptation), detection (e.g. revealing stock losses) and repression (e.g. identifying perpetrators).

Segregation of duties for example is designed to split up vulnerable activities into a series of sub-activities to prevent too many powers and responsibilities

¹³ A revolving door arrangement is one in which a civil servant is engaged by a public sector organisation immediately or shortly after he has left employment to carry out the same work, for example through an external consultancy. Such arrangements quickly raise suspicions of favouritism, unfair competition or the semblance of a conflict of interest.



being concentrated in one person. Another example is the “four eyes” or “two signatures” principle that prevents staff in certain positions working without supervision. In high-risk areas or processes (e.g. safe-key procedures or opening of proposals in a tendering procedure), at least two people should work together.

Key questions

- Is there a specification of vulnerable activities and positions?
- Are specific procedures in place for the conduct of vulnerable activities?
- Does everyone have a job description?
- Are duties segregated?
- Is the “four eyes principle” applied?
- Are there mandate regulations?
- Is a job rotation scheme in place?

5.3.3.4 Security

Security plays an important role in protecting an organisation’s integrity. Security, like the integrity policy in general, must be thoroughly thought out so that the organisation enjoys the protection it deserves. For integrity purposes, both physical security (locks, safes, etc.) and information security (computer access) are of great importance.

Specific elements of information security in relation to integrity include:

- Clean desk policy: Desks and office spaces must be kept clean so that unauthorised persons cannot learn anything from open documents.
- Classification of information as confidential or secret: Documents and files should be classified by their confidentiality and procedures should be in place on how to handle classified information.
- Filing systems: Strictly controlled filing systems should be in place to make sure that confidential and classified information is not accessible for unauthorised persons.

Key questions

Have measures been taken with regard to:

- physical security (locks, windows, doors, safes, etc.)?
- information security (IT security, clean desk policy, classification of information as confidential/secret, access authorisations, filing systems)?

5.3.3.5 Values and standards

The concept of integrity is closely associated with values and standards. An act’s integrity can be measured by its compatibility with the system of values and standards prevailing in the organisation. The values must be meaningful to the organisation and the standards should be universally acknowledged. The values and standards should be incorporated in the mission and laid down in the code of conduct. When a new civil servant takes an oath or pledge, he should be informed and made aware of the values and standards applicable within the organisation.

*Key questions*

- Is integrity part of the organisation's mission?
- Have core values been formulated (e.g. impartiality, professionalism etc.)?
- Has an (integrity) code of conduct been introduced?
- Is an oath or pledge taken?
- Is there a special ceremony for taking the oath or pledge?

5.3.3.6 Integrity awareness

As well as measures to increase the organisation's resilience to integrity violations, investments should be made in the moral resilience of individual members of staff. Integrity, or the integrity of an act, stands or falls on the integrity of the persons involved. Attention should therefore be paid to training and educating civil servants so that they can respond correctly in high-risk situations or if faced with dilemmas at work.

Key questions

- Is integrity an explicit requirement for all positions?
- Are regular training courses given to consider integrity?
- Are staff in vulnerable positions informed of particular risks and counter measures?
- Do staff get special assistance and/or council to cope with integrity risks?

5.3.3.7 Management attitude

Organisations and management styles differ from each other in many respects. The management style adopted by an organisation will influence its integrity. The management itself must set a good example and actively conduct an integrated integrity policy. If management sets the wrong example, the staff will be more inclined to copy its behaviour and will also be guilty of lack of integrity. If management does not implement an integrity policy, or does so only half-heartedly, it will give the impression that integrity does not enjoy high priority.

Key questions

- Does management actively promote the importance of integrity?
- Does management actively seek the implementation of an integrity policy and integrity measures?
- Does management always respond appropriately to integrity issues?
- Does management itself comply with integrity regulations and/or code of conduct?

5.3.3.8 Organisational culture

The organisational culture shapes the way in which the organisation's staff deal with each other (internal) and with third parties (external). Culture is a complex area and has a great influence on integrity within the organisation. Organisational culture also includes less formal forms of conduct such as the working atmosphere, the leadership style, the ability to discuss issues and



private problems, comradeship and loyalty, the organisation's openness to criticism and its tolerance of errors.

The attention management pays to integrity, the importance it attaches to it and whether there is open communication about it, the openness with external parties, the institutionalisation of integrity through consultation and performance interviews and the openness shown when dealing with integrity violations are also important aspects of the organisational culture. The key to promoting integrity through the organisational culture is communication. Management should encourage the discussion of problems and dilemmas and the provision of advice.

Key questions

- Is regular attention paid to the importance of integrity?
- Can integrity questions be discussed safely?
- Is there sufficient opportunity to express criticism?
- Is the importance of integrity clearly explained to external relations?
- Is there open communication on integrity violations and how they are dealt with?
- Is there a culture of holding others responsible for their conduct?
- Is there sufficient consideration of job satisfaction?

5.3.3.9 Recruitment & selection

The staff are the organisation's social capital. That is why integrity policy should centre on the staff. Human Resource Management (HRM) and personnel policy provide many opportunities for the organisation to consider staff integrity.

Key questions

- Is a fixed procedure in place to deal with all applications?
- Is an advisory selection committee consulted?
- Are CVs, diplomas, references, etc. always checked?
- Where necessary, does a form of pre-employment screening take place?
- Is integrity part of the induction programme for new members of staff?
- Where necessary, do staff sign a declaration of confidentiality?
- Is integrity periodically considered in work consultation and performance interviews?
- Is integrity a specific consideration when hiring temporary and external staff?
- Is integrity considered when staff leave or during exit interviews?

5.3.3.10 Response to integrity violations

As well as preventive measures to stop integrity violations occurring, the organisation should be fully prepared for an integrity violation or the suspicion of one. An effective response to a violation (whether real or suspected) will also help prevent future violations. It confirms the values and standards and encourages staff to resist temptation. Suspicion of a violation quickly leads to



unrest and tension within the organisation. Good preparation can prevent further escalation and help restore calm. Essential measures include:

- notification and complaints procedures to identify actual or potential violations in good time;
- systematic investigation procedures;
- sanctions (punishment) set in a clear framework;
- records of actual or potential violations and punishments.

Key questions

- Is a notification procedure in place for employees to report suspected violations ('whistle blowers procedure')?
- Are managers accessible by employees to report suspected violations?
- Is an integrity counsellor involved in the notification of violations?
- Is there a procedure for handling signals and complaints from external sources?
- Is there a protocol to investigate integrity violations?
- Are integrity violations recorded centrally?
- Does the organisation always respond to integrity violations?
- Are suspicions of criminal offences always reported to the public prosecutor or the police?

5.3.3.11 Policy framework

Integrity management must be based on policy, and integrity policy – like every other policy – should follow the steps of the policy cycle. The cycle begins with the formulation of a vision and goals and ends when the policy is evaluated and consequently revised where necessary. To formulate a policy framework for integrity, management must first develop a clear vision of integrity and set a clear direction for the measures to be taken. The policy framework must also ensure that the design and implementation of integrity measures are and remain balanced and coherent. The elements or steps that make up the policy framework are considered below.

Key questions

- Are integrity measures embedded in a systematic policy framework?
- Are concrete objectives formulated as part of the integrity system?
- Have time and funds been budgeted for implementing integrity measures?
- Are integrity measures communicated?
- Is integrity policy formally laid down in an overall policy plan?

5.3.3.12 Vulnerability/risk analysis

A vulnerability analysis entails a systematic analysis of actions, processes and positions that are exposed to possible integrity violations.

Key questions

- Are general vulnerability / risk analyses regularly carried out?
- Are in depth analyses carried out for vulnerable areas and positions?



5.3.3.13 Accountability

An organisation's integrity is of great importance to both its internal and external stakeholders. Management should therefore account both internally and externally for the design and operation of the integrity control system and any changes in it. Accountability also makes management feel more responsible for their organisation's integrity.

Key questions

- Does senior management receive reports to account for the integrity policy conducted?
- Do staff representatives receive reports to account for the integrity policy conducted?
- Do democratically elected authorities (parliament, municipal council, etc.) receive reports to account for the integrity policy conducted?
- Are the reports systematically structured and containing clear indicators?

5.3.3.14 Audit & monitoring

Integrity audits are a fitting means for management to gain an insight into the quality of the organisation's integrity control system. Such audits can be carried out by an internal control / audit department or by an external auditor. They are more valuable if management is aware of the integrity audit findings and recommendations and consistently responds to them.

Key questions

- Is the integrity system periodically audited by an internal auditor?
- Is the integrity system periodically reviewed by an external auditor and/or supervisor?
- Is the integrity system periodically monitored or evaluated by management?

5.4 Gap analysis

The basic concept of gap analysis and the identification of remaining vulnerabilities and risks, is already explained in chapter 4. If applied properly, the assessment method provides insight in the overall level of vulnerability (vulnerability profile) of an entity and the (average) maturity level of its integrity control system. The gap analysis identifies whether there is a balance between the two or not. If the vulnerability level is higher than the maturity level of the integrity controls, it is clear that resilience is insufficient and some vulnerabilities remain to be covered. The assessment will then result in recommendations how to improve the integrity control system to enhance resilience.

The balance is established at an aggregate level, meaning that the gap analysis on this level is not intended to assess whether there is an exact link between a



vulnerability and a specific control measure. As shown in 5.3 the integrity control system also includes general (clusters of) controls that are not specifically designed to address one specific vulnerability or risk, but aim for a broader impact on the resilience against integrity violations. Examples are formulating an integrity policy and integrity awareness training. So the gap analysis on this level will help to establish whether the entity's resilience is consistent with its level of vulnerability.

It is also possible to make a more in depth assessment as shown in the 'double scale picture' of paragraph 4.1.4. On this more detailed level specific integrity risks are considered. In that case the gap analysis is aiming to provide information about the presence or absence of mitigating (specific) controls to address these risks. If these controls do not exist, there are remaining risks and there is room for improvement of the integrity control system. On this level the gap analysis may result in very specific recommendations to introduce or better implement specific integrity control measures.



6 Integrity risk mapping

6.1 Nature

The assessment methodology as explained in chapter 5 focuses on an organisation or entity. Depending on the comprehensiveness of the assessment it provides a profile of the vulnerabilities, risks and maturity level of the controls within the organisation. The detail of the results of the assessment varies, according to the scope and depth of the analysis. It may only contain a vulnerability profile (vulnerable areas and vulnerability increasing circumstances), but also include specific risks, maturity level of the integrity controls and remaining vulnerabilities and risks.

The public sector in a country obviously encompasses many organisations, varying in position and duties. It includes for example, ministries, regional institutions, municipalities, agencies and public sector bodies. Also universities, schools, hospitals and prisons are examples of government organisations. Every organisation in the public sector has its own specific characteristics and therefore a unique profile. However, clusters of similar public sector organisations may be identified, for example municipalities or hospitals. The organisations belonging to these clusters have similar tasks and activities and their vulnerability profile will therefore be similar as well. Taking this into account, the assessment results of individual organisations can be combined and integrated to produce a systematic overview on the level of the entire public sector or clusters thereof. Such an overview is referred to as *risk map*; in this case an integrity risk map.

6.2 Purpose / objective

A risk map helps to recognise weak points, formulate possible improvements and prioritise efforts. Also it gives an opportunity to evaluate improvements over the years.

An integrity risk map for the Hungarian public sector can help to:

- identify vulnerable sectors within the Hungarian government;
- recognise strengths and weaknesses in the integrity system in the Hungarian public sector;



- formulate improvements and establish an adequate integrity control system for Hungarian governmental organisations;
- prioritise investigative efforts (repression);
- monitor and evaluate improvements over the years.

Ideally the most comprehensive risk map for the public sector of a country is assembled on the basis of the assessment results of all organisations constituting the public sector. These assessment results should not only include the vulnerabilities, but also specific risks, maturity level of measures and remaining risks. If the risk map is based on these rich data, it produces a detailed insight in the specific vulnerability of (parts of) the public sector, as well as the resilience against it.

To obtain an integrity risk map for the Hungarian public sector decisions need to be taken on the desired scope, detail and time of delivery of the risk map. This depends for example on the desired level of detail, resources, planning considerations and the availability of data. It also depends on the methods used to produce the risk map. For example contributions for the risk map may be either derived from self-assessments, surveys or audits. It also has to be decided whether data from all public sector organisations will be included in the risk map or only from a representative sample of organisations from typical clusters. To make this decisions it is clearly necessary to have an adequate description of the public sector as elaborated in the next paragraph.

6.3 The Hungarian public sector

Public administration and society are closely interrelated. Public administration is a part of the institutional system and operates within the framework of the given society. Public administration is a group of institutions organized on the basis of particular principles and performing activities of public interest.

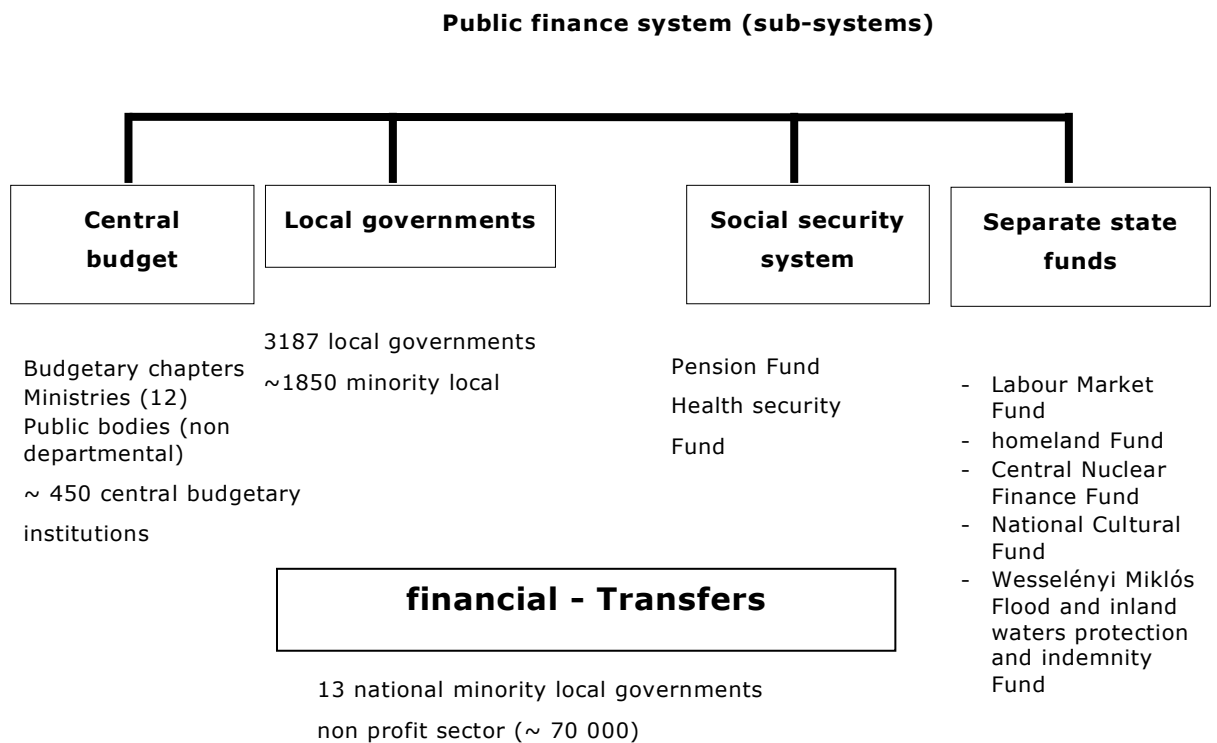
The development of the institutional system of public administration does not solely depend on **cultural, national and historical** traditions or **geographical** features, but of course on **economic** and **political** conditions as well. ¹⁴The institutional system of public administration in Hungary was also determined by the above factors. The number of functions of public administration related to service provision and the performance of certain tasks is increasing, which in turn determines the course of development of the institutional system.

The Hungarian public administrative institution system may be sketched according to various principles. The application of some kind of a principle is essential for the classification of the different institutions. If we take **legislation**

¹⁴ Lőrincz Lajos: A közigazgatás alapintézményei (Basic institution of public sector) HVG-ORAC Kft. 2005. p. 44-45



as a basis, then, subject to Act No. XXXVIII. Of 1992 on Public Finance (Áht.), public finance shall be understood as the system of the central budget, separate state funds, local governments and the social security system performing and financing governmental tasks.



The government performs public duties within the public finance entirely or partially through the budgetary organizations. The same Act also defines the budgetary **institutions**, which are as follows:

- a) central budgetary **institutions**;
- b) budgetary **institutions** of the local government, budgetary **institutions** of the local minority government;
- c) budgetary **institutions** of the social security system;
- d) budgetary **institutions** of the national minority government;
- e) budgetary **institutions** of a public body.

The institutional system may be described on the basis of the **Finance Act**, as well. In this case, institutions may be grouped in accordance with the budget chapters, and we can find e.g. under the budget chapter of the Ministry of Finance the Tax and Financial Control Administration, the Customs and Finance Guard, the Hungarian State Treasury, the Hungarian Financial Supervisory Authority and the Government Control Office.



The most frequently applied classification criterion of the institutions is the territorial scope of operation of the individual public administrative bodies. If the institution operates in the whole territory of the country, then it shall qualify as a **national** or **central** body, while those bodies whose operation is restricted to a well-definable region of the country, are to be regarded as **local** bodies. The relationship between central and local bodies is not determined by the principle of equality. Legislations pertaining to the whole territory and all citizens and organisations of the country, including local organisations, are made by the central bodies. Central bodies also have a full-scale or partial right of inspection over local bodies with the greatest autonomy.¹⁵

Institutions may also be classified according to their **tasks** performed in line with their respective powers. Thus, we can create various clusters or sectors of central or local bodies, with respect to the various public duties performed by them. For example, secondary schools, universities, student hostels, research institutes, museums, archives, libraries, theatres, etc. may be listed to the sector of education and culture. In the social and health-care sector we find hospitals, clinics, health-care institutions, ambulance services, social insurance institutions, social institutions, institutions dealing with food safety or public health, etc. Several further sectors may be created, such as law-enforcement, supervision and control, economy and transport, public security, etc.

The head of the public administration is the Government, to which the individual ministries are subordinated. Their numbers and denominations are continuously changing, mainly depending on the political will. We need to differentiate between ministries and those central public administration bodies that are independent from the government (non-departmental public bodies). Many of them represent an independent budget chapter, such as the Constitutional Court, the State Audit Office or the Hungarian Competition Authority, unlike others, such as the Public Procurement Council.

On the local level of public administration we find the local governments, where we should make a distinction between municipalities and the local governments of counties. Municipalities may be established in villages, towns, the capital and the districts. Local governments perform compulsory and voluntary tasks. Subject to Act No. LXV. of 1990 on local governments, municipalities are responsible for healthy drinking water supply, the provision of preschool education, primary school education, basic health-care and social services, public lighting and the maintenance of local roads and public cemeteries, as well as the safe-guarding of rights of national and ethnic minorities.

¹⁵ Lőrincz Lajos: A közigazgatás alapintézményei (Basic institution of public sector) HVG-ORAC Kft. 2005. p. 88-89



Further institutions are the public bodies, such as the Hungarian Academy of Sciences or the professional chambers (economic, medical or of attorneys at law), and public endowments such as the Hungarian Radio or the Hungarian Television.

Based on the description of the Hungarian public sector in this paragraph, the next paragraph (6.4) provides a preliminary schedule as basis for the risk mapping approach. This basic design may be detailed in due course as the implementation of the methodology progresses across the public sector in Hungary.

6.4 Design of an integrity risk map

The risk map methodology consists of four basic parts:

1. Inherent vulnerabilities
2. Vulnerability increasing circumstances
3. Maturity level of the integrity control system (resilience)
4. Gap analysis, identifying remaining vulnerabilities and risks

The risk map for the Hungarian public sector will focus on organisations, financed by central and local budget. Ultimately the integrity risk map may cover all steps for all above mentioned organisations.

The following diagram illustrates the possible scope and levels of the risk map.

	1	2	3	4
	Vulnerability profile		Maturity level of controls	Gap analysis / remaining vulnerabilities and risks
	Vulnerable areas	Vulnerability increasing circumstances		
Ministries				
NDPB's				
Central level: other				
Law enforcement				
Education & Culture				
Social & Health				
Control & Supervision				
Economy & Transport				
Municipalities				
Other				

NDPD: Non-Departmental Public Bodies

The information about the assessment results may be stored in a database with the structure of this matrix. On the basis of an analysis of the material in the



database, reports can be produced on an aggregate level, which may be published on a website. This establishes transparency about the risk map, while avoiding publishing confidential information.



7 Implementation

7.1 Implementation strategy

The result of the Twinning Light project of the State Audit Office of Hungary and the Netherlands Court of Audit is an assessment and mapping methodology for corruption risks in the public sector of Hungary.

As stated earlier, this methodology has been designed for use in a self assessment workshop. However it is also possible to apply the method in an audit setting or use a survey to collect the necessary information. All three methods have their specific advantages and disadvantages.

Self assessment has the advantage that it directly involves employees from the organisation who have a good knowledge of the processes concerned. This way there is a higher chance that the analysis raises the real issues that need addressing. Also it raises awareness and problem ownership.

The disadvantage is that a lot depends on the quality of the participants and the group-process. If there is no openness, if there is pressure for 'good' results or if the selection of participants is biased, the result will be useless. Also just a small cross section of the employees is involved. In small organisations it may be difficult to organise a self assessment, because it means that there will be hardly any people left to 'look after the shop'. Also anonymity is a problem in a small organisation.

A **survey** can overcome some of these problems. The main advantage of a survey is that it is an efficient way to involve more people at their own convenience. The disadvantage of a survey is that there can be misunderstandings about the meaning of words or questions, without the opportunity for clarification. These misunderstandings will influence results and make interpretation difficult. Moreover, not all parts of the methodology are suitable for survey application. Obviously a survey does not have the advantage of raising awareness and ownership to the same extent as a self assessment.

An **audit** has the advantage that it is performed by trained independent auditors. This means that the objectivity of the assessment will be high. However in an audit it is more difficult to get a real insight into the 'working' (maturity) of the integrity control system. It is possible to raise



(management)awareness, but it is especially difficult to raise problem ownership through auditing.

In choosing the appropriate approach, the following differences should also be considered:

Self assessment:

- Environment: Representative group in protected environment
- Sources: documents and inside knowledge
- Scope risks: no limitations; excellent view of risk enhancing factors
- Scope integrity control system: maybe limited view of general and hard controls; excellent knowledge of effective operation of controls
- Gap analysis: good insight in risks and measures that can reduce risks.
- Recommendations: good priorities, hard and soft controls
- Especially good for functioning control system and remaining risks

Survey/audit

- Audit environment: auditor <> object
- Sources: documents and interviews
- Scope risks: no inside knowledge of possible undesirable events
- Scope integrity control system: design and implementation, limited view of effective operation of soft controls
- Gap analysis: superficial
- Recommendations: focused on hard controls
- Especially good for vulnerabilities, design/ implementation control system

The objective of implementation is to use the assessment methodology and to collect information about corruption risks and maturity of controls for public sector organisations in a systematic and sustainable way. Whether this can be achieved by audit, survey or self assessment (or maybe a mix) is one of the topics to be decided in the implementation strategy. The result should enable the SAO to get a clear picture of the most vulnerable areas and help to determine recommendations to the Government concerning the anti-corruption measures to be taken.

The implementation strategy should take into account two important starting-points:

- the public sector consists of a high number of entities (organisations) with specific characteristics, vulnerabilities, risks and maturity level of controls;
- an overview or 'map' of this *integrity profile* of the public sector is important for a targeted approach.

The implementation strategy should include the following components:



- description / overview of public sector entities;
- assessment on entity (organisation) level;
- composition of a map of the public sector.

Already the method has been tested and a start has been made in collecting information with a survey amongst Ministries and two pilot self assessments. It is however clear that the SAO can not perform such a task on its own. Implementation will require considerable efforts of the public sector entities and support from the government on policy-level.

This chapter (7.4) describes three possible scenario's with their advantages and disadvantages. Based on the discussions in the project team and with stakeholders, a preferred scenario is proposed, together with necessary preconditions and resources.

7.2 Survey results

In sub-section 6.4, we have introduced the process of integrity risk mapping. To test the process, we have also conducted a survey in the Hungarian Ministries by sending the same questionnaire to each Ministry.

The survey consisted of two parts: the first part was targeted at the exploration of the vulnerability inherent in the activity of the given ministry, while the second part was targeted at the exploration of (external) vulnerability enhancement factors. In the first part of the questionnaire, we listed processes/activities we have summarized in Subsection 5.1 of this study. We deviated from the general scheme only to the extent required by the particularities of the activities of the given ministries. Therefore, three scopes of activities included in the chart referenced (collecting, public services, selling of goods) were left out of the survey, as such activities are not characteristically performed by the ministries. At the same time, the activities related to legislation were further divided and detailed, this being one of the most emphatic and primary activity of the ministries.

While filling the first part, the ministries had to evaluate which of the vulnerable processes/activities are characteristic for the given ministry. First, they had to decide whether the given process/activity is present in the ministry or not. If the ministry does not perform such an activity and the activity is not present in the ministry, they had to check the column "irrelevant". Then they had to determine if the process/activity is a primary activity/process within the ministry (i.e. if it belongs to the core activities of the ministry) or a secondary process/activity (promoting or permitting the implementation of the core activity). Finally, they



had to write 1 in the box selected, if the activity in question is a daily activity, and 2, if it is a rare or occasional activity.

In the second part of the questionnaire, we asked questions in connection with the two major groups of vulnerability enhancing factors: complexity and changes/dynamics, by listing the conditions described in the 1st and 2nd groups of Chart No. 2 in sub-section 5.1 of this study. The ministries had to evaluate which of the circumstances listed are characteristic for the given ministry. If they checked "Yes", they were also asked to describe shortly how the given condition affects the activity of the ministry.

In the following charts, we attempted to introduce the information provided by the ministries in short. We would like to emphasize a few factors in this respect. In charts No. 1. and 2., we summarized how many of the ministries checked the activities vulnerable to corruption and evaluated such activities as typically primary (related to the core activity) or secondary (related to a supplementary activity) processes in the given ministry.

Eight ministries submitted valuable answers to the questionnaire. The majority of the ministries failed to specify the frequency of the activity by entering 1 or 2; they simply indicated whether the given activity is characteristic for the ministry and if it should be regarded as a primary or secondary activity. They rarely supplemented the activities previously indicated in the questionnaire with further vulnerable activities regularly performed by the ministry. We took this fact into consideration in summarizing the answers to the questionnaire.

For the sake of transparency, it was summarized in two charts how many of the ministries indicated the activities in the questionnaire as primary or secondary regular activities. For further details see Charts No. 1. and 2.

Chart No. 1. Vulnerable activities I.

Charac- teristics	Type	Activity	Primary process	Secondary process	Irrele- vant
Relationship between the government and the public (businesses)	Contracting	Open tenders	2	4	2
		Restricted tenders	3	5	
		Agency Agreements		8	
		Occasional procurements		7	1
	Payment	Subsidies for businesses	1	3	4
		Benefits, allowances for individuals		3	5
		Sponsoring of the public sector	3	3	2
	Granting/issuing	permits	4	1	3
		Approvals	3	1	4
		Certificates	2	3	3
	Legislation (with the following content)	Requirements for products	4	1	3
		Definition of support criteria	7		1
		Definition of licensing criteria	6		2
		Definition of technical requirements	6	1	1
	Law-enforcement	Supervision	5	1	2
		Control	5	1	2
		Inspection	1	3	4

Chart No. 2. Vulnerable activities II.

Charac- teristics	Type	Activity	Primary process	Secondary process	Irrele- vant
Managing public property	Information	National secrets	3	2	3
		Service secrets	3	2	3
		Business secrets	2	4	2
	Money	Securities (shares, bonds)			8
		Portfolio management	1		7
		Cash/bank management		5	3
		Premiums, expenses, bonuses, allowances		8	
	Property (goods, real estate)	buying / selling		4	4
		Property management	1	5	2

Based on the data in the two Charts above, we can make 3 general statements:

- The activities of the ministries include many processes (contracting, payments, legislation) entailing the risk of corruption.
- The majority of such processes are not related to the core activity, but a supplementary activity of the ministry.



- The ministries do not represent a uniform cluster with respect to their exposure to primary corruption risks; the tasks of the individual ministries are different in this respect as well.

In Chart No. 1. we indicated activities in the course of which the ministry and the public or businesses come into contact with each other, and which therefore entail the risk of corruption. The data in the Chart verify that such activities are regularly performed in the majority of the ministries, however, in many cases, as parts of secondary, instead of primary processes. For example, only 2 of the ministries evaluated the public call for tenders as their primary activity. It is remarkable that the majority of the ministries perform activities which are vulnerable to the risk of corruption in the course of legislation as well. This is because the ministries prepare many legal rules which stipulate the conditions of supporting or licensing or the technological requirements for products, whereby they have an almost direct effect on the participants in the economy. This corruption factor requires our attention in the future as well.

In Chart No. 2. we asked the ministries to evaluate the vulnerability of activities related to the management of public property. These processes were evaluated by the majority of the ministries as secondary activities, and many of them stated that such processes are not characteristic of the organisation. State secrets and business secrets were also classified as public property, as the state may freely dispose over such information (with certain restrictions) as its own. As revealed by the survey, secrecy is becoming less and less typical in the activity of the ministries. The risk of corruption is further reduced by the fact that in our days the ministries very rarely need to deal with money or securities, except for payrolls. The management of property (goods and real property) is not typical of all the ministries either, and where it is, it was qualified as a secondary activity.

Answers regarding vulnerability enhancing circumstances were again summarized in two charts. Chart No. 3. lets us conclude that conditions related to complexity represent a considerable vulnerability enhancing factor for the majority of the ministries. The single condition evaluated only by one ministry as a relevant vulnerability enhancing factor was the mixing of public and private interests. At the same time, with respect to the complexity of legislation all, while with respect to the necessity of the involvement of external expertise all but one of the organisations answered "Yes". The majority of the ministries indicated political influence/intervention as a valid vulnerability enhancing factor as well, but their written explanations revealed that the various ministries meant various types of behaviour by the term "political intervention". Their interpretations ranged from the influencing of individual decisions to the political control of the development of policies.

**Chart No. 3. Vulnerability enhancing factors I.**

1. Complexity	Yes	No
Innovation / advanced computer) systems	5	3
Complex legislation	8	-
Special constructions (legal / fiscal)	5	3
Bureaucracy	6	2
Networks of relations	5	3
Lobbying	4	4
Political influence / intervention	6	2
Mix of public-private interests (commerce / competition)	1	7
Need for external expertise	7	1

Chart No. 4. Vulnerability enhancement factors II.

2. Changes/dynamics	Yes	No
Young organisation	4	4
Frequently changing legislation	8	—
Strong growth or downsizing	3	5
Outsourcing	4	4
Crisis (reorganisation, threats with huge impact, survival of the organisation or job at stake)	3	5
External pressure (pressure on performance, expenditure, time, political pressure, shortages / scarce resources in comparison with duties)	8	

As for changes/dynamics (see Chart No. 4), the ministries clearly evaluated frequently changing legislation, the pressure on performance and the scarcity of resources in comparison with duties, as factors enhancing vulnerability. We are of the opinion that decision-makers should pay increased attention to the above factors. However progressive the modification of a legislation may be, it will not be beneficial if changes cause uncertainty in law-enforcement or permit individual constructions.

The other factor checked by all ministries as a valid factor enhancing the risk of corruption was the pressure on performance. We recommend that adequate attention be paid to this factor as well, because it has been found that employees trying to meet increased requirements with respect to their performance tend to feel exempted from compliance with rules and the application of adequate controls, thus the pressure on performance may become the hotbed of corruption.

In Chart No. 5. we tried to demonstrate (without naming the relevant ministries) that the various ministries evaluate the vulnerability of their

respective activities very differently. It should be emphasized again that vulnerability is an objective category which does not necessarily mean that an act of corruption is bound to happen. However, we need to be aware of vulnerability in order to prevent or eliminate corruption more efficiently.

Chart No. 5. Vulnerability in the individual ministries

Number of the ministry	Number of vulnerability enhancement factors	Number of vulnerable activities		
		total	primary	secondary
1.	14	20	3	17
2.	12	26	13	13
3.	11	9	6	3
4.	10	20	11	9
5.	8	18	9	9
6.	8	22	7	15
7.	6	21	11	10
8.	6	15	8	7
maximum	14	26	26	26

The data included in Chart No. 5. reveal that ministries evaluate the vulnerability of their respective activities very differently. As it can be seen, one of the ministries identified all vulnerability enhancing factors in its environment. Another ministry deemed all activities entailing the risk of corruption as its regular activity. But even apart from these extremities, the numbers reveal that the activity of the ministries is exposed to several corruption risks. Consequently, the systematic exploration of such risks and the factors enhancing such risks are of major significance with regard to the prevention and elimination of corruption.

The results of the survey indicate that the ministries interpreted some parts of the questionnaire differently. This is not uncommon in cases that surveys are used, since the respondent cannot be given direct guidance at the time of answering the questions. For example, when talking about corruption, we usually understand by "bureaucracy" a negative factor making work processes more complicated and administration longer, which may in turn make employees try to evade legal rules and internal policies instead of complying with them. This means that overregulation does not reduce, but rather increases the



possibility of corruption situations or conditions violating the requirement of integrity. However, the answers received from the ministries reflected other interpretations as well. The survey provides opportunities to further specify and clarify the questionnaire for future surveys. It also provides material that may be used in training sessions for the employees of the individual ministries to be involved in this new kind of work.

7.3 Pilot results

We asked the Minister of Economy and Transport and the mayor of the city of Szigetszentmiklós to test the self-assessment methodology developed in the course of the project, i.e. to apply the methodology to one of the respective activities of the ministry and the mayor's office.

The Ministry of Economy and Transport involved the Appropriation of Small and Medium-sized Businesses in the self-assessment. This appropriation provides subsidies, supports and other financial aids available through tenders for businesses, which play a significant role in the development of the economy. Further vulnerability enhancing factors of this area: difficulties arising out of special legal constructions, lobbying, political influence and the pressure on performance. These factors primarily called attention to the more comprehensive application of the principle of transparency and the significance of providing more versatile information on the changes of legislation. In the case of the municipality of the city of Szigetszentmiklós, the pilot study was applied to the Construction Authority Department, and more closely to the issuing of building permits, where the high risk of violating integrity-related rules may be traced back to deficiencies in the information system and the lack of staff primarily. Theoretically, the mixing of public and private interests may also present a possible source of risk.

The common findings of the pilot studies may be summarized as follows:

- The employees of public institutions are not (adequately) familiar with the concept of integrity. High priority must be given to the explanation of the method (uniform terminology, relationships between various parts of the methodology) and the preparation of its application (written materials, trainings, trained moderators), to make self-assessment effective.
- Self-assessment is practicable, provided it is adequately supported by the management. Participant showed interest and responsibility during the pilot study and expressed their readiness to participate in any similar works in the future.
- The method(s) of scoring must be clarified.
- A uniform "restated" integrity policy should be developed as soon as possible within the institutions for improving integrity-related awareness.



The pilot studies provided us with much valid information and feedback that may be very useful for the improvement of the methodology.

7.4 Scenarios

7.4.1 Preliminary risk maps

At the end of the Twinning Light project, the risk map contains information on inherent vulnerabilities (step 1) and two vulnerability increasing circumstances (part of step 2) for most ministries. This is represented by the result of the survey (see 7.2). It also contains information on all four steps regarding the pilot organisations: the Ministry of Economy and Transport and the municipality of Szigetszentmiklós (see 7.3). This will be the start of a first preliminary risk map.

A broader preliminary risk map may be available by December 2008, according to a proposed action plan of the Anti Corruption Co-ordination Board (ACCB). This risk map could contain information on inherent vulnerabilities (step 1) and some vulnerability increasing circumstances (step 2), gathered by a survey from a sample from all sectors: 6 state funds; 12 NDPB's; 12 budgetary institutions (according to sub-sectors) and 50-100 municipalities.

This will result in a general vulnerability profile per sector. With this result it will be possible to pinpoint the most vulnerable areas and prioritize further policies, actions and investigations. It may also be the starting point for implementing further stages of the risk map.

7.4.2 Three scenario's

Based on the status at December 2008, three scenarios from 2009 onwards were presented and discussed during the implementation workshop that was part of the Twinning Light project:

1. **Quick and detailed:** quick results of limited scope but detailed for a small number of organisations with comparable risks. Focus on gap analysis/remaining risks for specific vulnerable processes.
2. **Quick and global:** quick results of limited detail but wider scope of organisations. Focus on integrity control system and implementation of basic integrity measures.
3. **Sound and safe:** solid balance of scope and detail but slow results. Focus on gradually introducing all steps.



Scenario 1: Quick and detailed

In this scenario we take a sample of organisations represented in the December 2008 preliminary risk map, based on similar inherent vulnerabilities. These organisations are asked to perform a self assessment for steps 2 until 4.

As a result it will be possible to give specific recommendations concerning a specific vulnerable process to reduce vulnerability and increase resilience. These recommendations can also be applied to other organisations with similar inherent vulnerabilities.

Risk map: scenario 1 (December 2009)

	1	2	3	4
	Vulnerability profile		Maturity level of controls	Gap analysis / remaining vulnerabilities and risks
	Vulnerable areas	Vulnerability increasing circumstances		
Ministries				
NDPB's				
Central level: other				
Law enforcement				
Education & Culture				
Social & Health				
Control & Supervision				
Economy & Transport				
Municipalities				
Other				

Legend	
	Fully covered
	sample of organisations
	Self assessment sub sample of vulnerabilities

Advantages are:

- quick specific results for (a) group(s) of specific organisations;
- problem ownership is stimulated;
- raises awareness in vulnerable sectors;
- good examples raise the attractiveness of the method for other organisations.

Disadvantages are:

- the time factor: it takes time to convince organisations to co-operate: you need perfect participants and support may be difficult to organise on such a short-time basis;
- the training factor: lack of knowledge about specific characteristics of organisations and the need to train staff in performing self assessment;
- Overall picture disappears in the details.



Scenario 2: Quick and global

In this scenario we propose Self assessment or audit on step 3 (maturity of integrity control system) for all organisations represented in the December 2008 survey.

As a result it will be possible to give an overview of compliance, strengths and weaknesses of integrity control systems in the public sector. This may lead to recommendations concerning a basic set of integrity control measures for different parts of the public sector. It can also serve as a baseline measurement against which to benchmark progress over the years.

Risk map: scenario 2 (December 2009)

	1	2	3	4
	Vulnerability profile		Maturity level of controls	Gap analysis / remaining vulnerabilities and risks
	Vulnerable areas	Vulnerability increasing circumstances		
Ministries				
NDPB's				
Central level: other				
Law enforcement				
Education & Culture				
Social & Health				
Control & Supervision				
Economy & Transport				
Municipalities				
Other				

Legend	
	Fully covered
	Some aspects covered
	Sample of organisations

Advantages are:

- quick results in an overall picture;
- basis for benchmarking;
- raises awareness of importance of integrity controls, including the necessity of risk assessment, in the entire public sector.

Disadvantages are:

- not much detail, so more general measures;
- does not promote ownership;
- difficult to convince all organisations that this is needed;
- no voluntary participation: another task.



Scenario 3: Sound and safe

This scenario proposes a step by step approach to fill the risk map year by year with more detailed results of the organisations represented in the December 2008 survey:

1. Self assessment of vulnerability profile (step 2)
2. Self assessment of maturity of integrity control system and gap analysis on organisational level (step 3)
3. Self assessment of gap analysis on process level (step 4)

Risk map: scenario 3 (December 2009)

	1	2	3	4
	Vulnerability profile		Maturity level of controls	Gap analysis / remaining vulnerabilities and risks
	Vulnerable areas	Vulnerability increasing circumstances		
Ministries				
NDPB's				
Central level: other				
Law enforcement				
Education & Culture				
Social & Health				
Control & Supervision				
Economy & Transport				
Municipalities				
Other				

Legend	
	Fully covered
	Sample of organisations

Advantages are:

- assured continuous attention over a number of years within organisations distributed over the public sector;
- gradual familiarisation with the methodology;
- gradual raising of awareness.

Disadvantages are:

- slow results;
- considerable resource requirements;
- no sense of urgency.

The three scenarios were discussed with the project team and stakeholders. The outcome of the discussions was that a combination of scenario's 1 and 2 was preferred. This would make it possible to produce results on a base line (not very detailed) level within a limited period of time, while at the same time promoting the practice of self-assessments within the Hungarian public sector. Both the project team and the stakeholders agreed that scenario 3 was not to be preferred, because the results would be produced too slowly.



The preferred combination of scenario's has the advantage of producing a baseline measurement that can lead to quick wins, together with a strategy to stimulate organisations to use self assessment and set good examples.

7.5 Requirements and conditions

In order for the combination of implementation scenario's to work, the following conditions need to be fulfilled:

Action plan: The risk map should be part of the final ACCB action plan.

Training: The integrity approach requires training. Not only for auditors, but also for moderators within organisations conducting the self assessments.

Infrastructure: A platform should be established that is assigned the task of co-ordinating the training, the information collection and analysis and support for self assessment, with an appropriate budget.

Attractivity: The contribution to the risk map should be made attractive for organisations. Rather than making it compulsory, e.g. by law or by incorporating it in the SAO audit planning, this may be reached by 'rewards', e.g. awarding a quality certificate for organisations who perform self assessments.

During the implementation it is important to keep an open eye for the following strategic requirements.

- Try, if possible, to involve organisations rather than to force them. This way it is easier to establish problem ownership within the organisations themselves.
- Where possible, look for the opportunity to integrate self assessment into audit strategies. The SAO can e.g. stimulate the colleagues from the audit or control departments within the ministries to use self assessment methodology.
- Use risk mapping not as an instrument to control, but rather as a way to raise awareness of integrity problems that organisations themselves can improve on.
- In reporting, focus on interesting topics resulting from the (horizontal) comparison of organisations.



8 Recommendations

8.1 Anti-corruption policies

During the consecutive phases of the Twinning Light project, recommendations of various nature were formulated for the anti-corruption strategies of the Hungarian government.

The simultaneous development of the *anti-corruption strategy* of the government and the related *action plan* provides an excellent opportunity for the direct utilization of the project results. It allowed us to make suggestions for the elaboration of the anti-corruption governmental strategy and the action plan, based on our experience gained in connection with the programme. We have the following five comprehensive suggestions to promote the development of the strategy:

1. The establishment of fair and ethical conduct in public offices and the development of the necessary organisational culture should be emphasized in the anti-corruption strategy.
2. The individual budgetary institutions should play a key role in the improvement of the integrity of employees and the prevention and screening of corruption.
3. Prevention is the most effective way of fighting corruption, therefore the systematic assessment of corruption risks and prevention based on such assessment should be given high priority.
4. A corruption risk map should be prepared with the application of the methodology developed in the course of the project, which should specify the place, type and nature of areas with a high level of corruption risks in the Hungarian public sector.
5. Anti-corruption fight shall not be restricted to public institutions, but the approaches and methods should be applied, with necessary adaptation, to businesses as well, particularly if they are directly related to the public sector.

The above strategic recommendations may enrich the definition of the main strategic direction(s), primarily by directing attention to the long-term advantages of the application or gradual introduction of the integrity approach besides the hard, repressive approach. The optimal, consolidated application of the two approaches presents the best opportunity for fighting corruption.



The above recommendations, in addition to the proper choice of the main strategic direction, will also help with the more versatile definition of the strategic objectives (e.g. risk analysis) and the priorities (e.g. compliance with the international requirements and best practice).

This requires, however, that the following items be included in the tasks determined by short-term Action Plans aimed at the implementation of the Strategy:

- The corruption risk map for the Hungarian public administration should be prepared with the application of the risk analysis approaches and methods recommended in the framework of the programme.
- The pilot study of the integrity method recommended should be conducted in the near future with the involvement of several institutions (at least 3-4 ministries and a municipality of a settlement with more than 8-10 thousand inhabitants).
- The basis for the training of the integrity approach and method should be established as early as possible within the organisational frameworks of the government, the ministries and the local governments. The experts of the ministries and local governments who have participated in the training programmes during the project are available (as trainers) for this purpose.

The central recommendation for the Hungarian government is to consider developing an integrity policy for the public sector, as well as creating the legal basis to support it.

The integrity policy and the government's anti-corruption efforts should be designed and implemented as a continuous activity and not as a project. This implies creating a (new) organisational structure to ensure this.

The integrity policy should be based on a (comprehensive) integrity risk analysis. This twinning light project, focussing on preparing a corruption risk map for the Hungarian public sector, may be considered a starting point to implement this.

Acknowledging that in various parts of the Hungarian public sector anti-corruption measures are taken, it is recommended to bring together the available measures in a consistent framework and to promote standardisation, co-ordination and transparency about these measures and efforts. Existing integrity legislation should be enforced consistently.

It is recommended to issue a standardised general code of conduct with a legal basis for all civil servants. This code of conduct should serve as a minimum level for the public sector on which additions are possible for specific categories of



civil servants. With a view on setting a good example it is also recommended to issue a code of conduct for politicians and elected officials.

More specific recommendations include:

- implementing awareness and training programs to promote a culture of integrity on all levels of the public sector;
- introducing legislation to facilitate integrity investigations before granting licenses or engaging into contracts with private persons or entities;
- broadening the scope of 'certificates of good conduct', as a means of providing information about the antecedents of civil servants and government officials;
- creating the function of integrity counsellor, for providing advice and support in integrity issues for civil servants;
- stipulating a maximum limit for the value of gifts that may be accepted by civil servants.

For the SAO it is recommended to implement integrity risk analysis as part of the audit risk analysis approach and to consider conducting a self assessment for the SAO itself.

8.2 Further implementation

Further implementation directions may be determined in view of the comments and recommendations made at the closing conference. In the mini workshop organized at the conference, first the methodology was explained, and then participants applied the main elements of risk analysis to their respective organisations. Participants could also express their opinions of the risk analysis methodology, which are summarized as follows:

- As for the **purpose** and **benefit** of the methodology, participants said that, in the long run, it may lead to a change of approach in the public sector, which may, in turn, result in the reduction or prevention of corruption. The methodology enhancing integrity-awareness is determinative in laying down further rules within an institution, therefore it may be a useful tool for the management. It is beneficial, because it also contains suggestions as to the elimination of bad practice.
- The methodology may be useful and applicable in the course of **self-assessment, survey** and **supervision** as well. Most of the participants were of the opinion that the risk assessment methodology may be best applied in the course of self-assessment.
- Self-assessment requires a number of **conditions**, most important of which are the will and commitment of the management and adequate information and knowledge of the self-assessment method. It should not be neglected



either that proper self-assessment may only be properly implemented if appropriate time is devoted to the performance of various tasks. This requires, however, the availability of resources and budgets.

- Provided that the conditions of self-assessment are met, almost all of the participants gave a positive answer to the question, whether they **would recommend** the methodology to the management of their respective organisations.

In view of the foregoing, we make recommendations as follows:

1. An organisational unit or possibly a separate organisation should be established in the public sector to deal with integrity policy and provide proper professional background.
2. Integrity-related studies should be included in the education and training of civil servants. Trainings on integrity should be regularly organised within the organisations as well.
3. Adequate budget should be provided for the institutions for the implementation of the integrity policy.
4. Public administration institutions should employ integrity officers.

Panel discussion:

We also organized a panel discussion at the closing conference, where the below questions were asked. When each panel member expressed his/her opinion, we always asked the audience as well.

- Do you find self-assessment or control a better method?

Panel members were divided as to whether self-assessment or control is the better method. Self-assessment is more closely related to employees and the problems within the organisation, therefore it may be applied more quickly than controls. At the same time, being a new concept in Hungary, self-assessment may also pose many difficulties for those applying it. It was suggested that the area or organisation in question should be subjected to control at first, and after that self-assessment could be applied to the same area or organisation. Self-assessment may be applied in addition to and simultaneously with control as well, which may prove the most effective method.

23 of the participants of the conference voted for self-assessment, and 12 for control.

- What do you think of the integrity approach?

Integrity requires a completely different approach in Hungary. It is a bit difficult to get used to this approach, although it is much more effective and positive than retaliation. However, repression may not be disregarded in today's Hungary, and it remains necessary in the future as well. Illegal conduct must be



sanctioned. The improvement of integrity and retaliation could be applied in Hungary contemporaneously and in a consolidated manner.

20 of the participants thought that integrity may be realized in Hungary, while 16 said that it may not be realized.

- What do you think: should we introduce an integrity policy based on institutional responsibility or should we realize the anti-corruption policy by means of legislation?

Integrity policy may only be introduced with difficulties in today's Hungary. Integrity policy based on institutional responsibility may be defined as a long-term objective, however, we need legislation to implement it. Nevertheless, the first steps must be taken if we want to realize the integrity policy in institutions. 1 of the participants voted for the concentration of the anti-corruption strategy on legislation, while 35 persons had the opinion that institutional level integrity policy should be emphasized.

- What role may publicity and the disclosure of problems play?

Publicity is very important as it may have a repressive effect, but the public may also be manipulated. We very often come across this phenomenon in the Hungarian practice, which may lead to adverse effects.

22 of the participants had the view that all cases of corruption should be made public, while 14 found it unnecessary.

We can formulate the following suggestions on the basis of the panel discussion:

1. The protection of whistleblowers should be guaranteed by legislation (primarily through anonymity).
2. Proper legislation should be provided as a background for expert investigative journalism, imposing restrictions on the tabloid press.

As for further implementation, we have the following recommendations:

A Co-operation Agreement should be made between the Ministry of Justice and Law-enforcement (IRM) and the SAO of Hungary with respect to the transmission of methodology related to the establishment and improvement of the integrity policy by the SAO to the IRM. IRM shall provide the necessary professional background for the implementation of the policy, organize trainings and provide for the improvement of the methodology. SAO shall provide continuous assistance with the elaboration of training materials and the improvement of the methodology in the future as well.



Annex 1: stakeholder involvement

For the success of the project it is important that SAO's external stakeholders with regard to anti corruption tasks are involved. This has been a recurring theme in all phases of the project. Also for the sustainability of the project results stakeholder involvement is crucial. It is not only a matter of transferring ownership of the method to SAO staff, but also of commitment to the integrity risk mapping approach by key players and other stakeholders.

It was recognised that stakeholders are important to:

- get input for developing a suitable methodology;
- get support for and acceptance of the methodology.

Involvement of stakeholders was realised on different levels:

- partnership (stakeholders contributing as member of the project team, study visit, training, pilot or Steering Committee);
- consultation (stakeholders providing expertise or information relevant for the development of the methodology and its implementation);
- information (stakeholders receiving information about the project to promote utilisation of the methodology).

Key stakeholders were also invited to participate in the project's steering committee.

The project started with a kick off meeting. This meeting was organised in the main building of the SAO to present the project to the relevant audience, experts and interested parties. The meeting was also utilised to get some preliminary feedback on the initial ideas about the project features and approach for the risk mapping methodology. Representatives of the ACCB, several ministries, as well as local governments, research institutes, and some important NGOs as Transparency International attended the kick-off meeting.

The consecutive two stakeholder workshops ensured that all key players, identified during the kick off and planning workshop, were fully aware of the project and had the opportunity to provide input relevant for its approach. The first workshop was meant for representatives from relevant ministries (Ministry of Finance, Ministry of Justice and Law Enforcement, Ministry of Economy and Transport, Ministry of Local Governments and Regional Development) and



municipalities. The invitees for the second workshop were all experts from Customs and Finance Guard, Tax and Financial Control Administration, OLAF Coordination Hungary, National Investigation Department of Police, Council of Public Procurement.

Representatives from the Ombudsman, Ministry of Economy and Transport, Ministry of Local Governments and Regional Development and the Council of Public Procurement participated in the study visit to the Netherlands. Representatives from several public organisations took part in the training.

During both the design workshop and implementation workshop meetings and discussions with stakeholders took place, to ensure that their views would be reflected in the project results. External pressure was ensured by including the transparency working group of 9 embassies in Hungary in these discussions.

Special attention was given to the pilot teams from the ministry of Economy and Transport, the municipality of Szigetszentmiklos and the National Development Agency. Their experiences with the assessment methodology make them powerful advocates in the Hungarian public sector.

The project ended with a closing conference that not only included participants from stakeholders who were involved in earlier project activities, but also the press and academia.

