



STATE AUDIT  
OFFICE OF HUNGARY

# **, Utilisation of the results of integrity survey during audit – the Hungarian experience**

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*„Methods and measuring tools to audit  
ethics” Seminar*



# The Hungarian Integrity Project

- SAO's Integrity Project (2009-2012)
- Dissemination of integrity approach
- Integrity surveys
- Target group of the survey consisted of all the Hungarian budgetary institutions (6-7 thousand organisation)

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# Goals of the Survey

- To change administrative culture and officials' attitude
- To measure the corruption risk level of budgetary organs (benchmarking)
- **To develop audit methodologies**
- To train the civil servants
- To help governmental bodies

# Applied methods of the survey

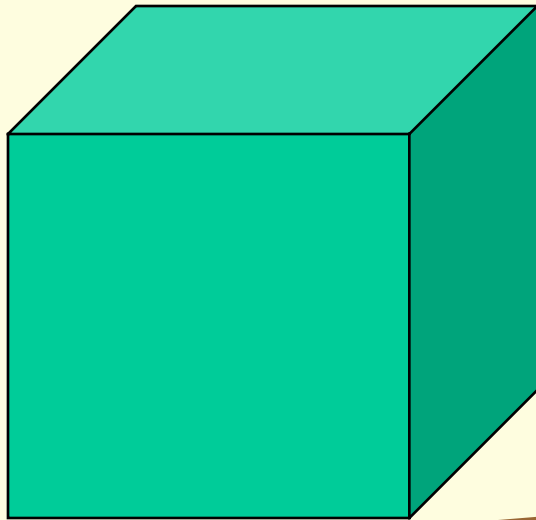
- Voluntary based data collecting
- Using smart, digital form via Internet
- Automated data processing
- Summing up risk points
- 3 indices are calculated:
  - Inherent Vulnerability Index
  - Enhanced Factors Index
  - Existence of Controls Index
- Visualisation of results on digital map: (search & compare)

# Three indices

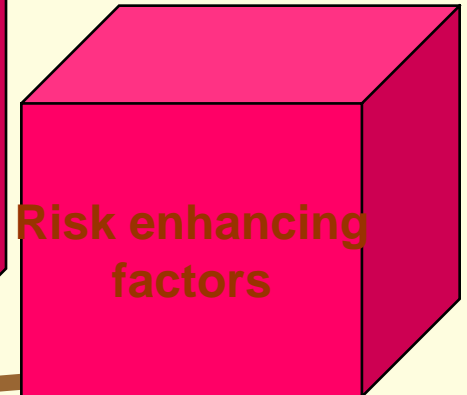
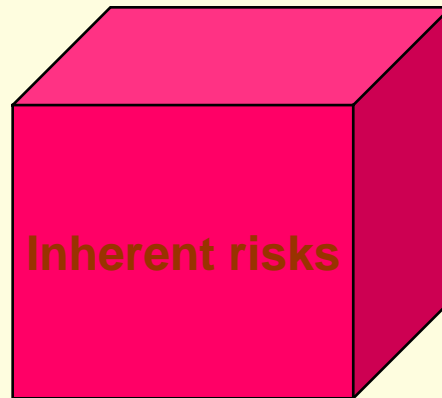
- **Inherent Vulnerability Index** indicates the extent to which a particular organization is exposed to corruption on the basis of its legal status and role.
- **Enhanced Factors Index** shows legal and institutional features of the particular organization which increases the risks of corruption.
- **Existence of Controls Index** measures the maturity of the existing control system.

# Integrity approach

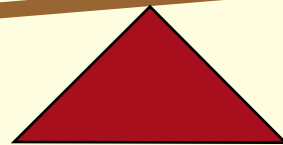
Integrity controls



Corruption risks

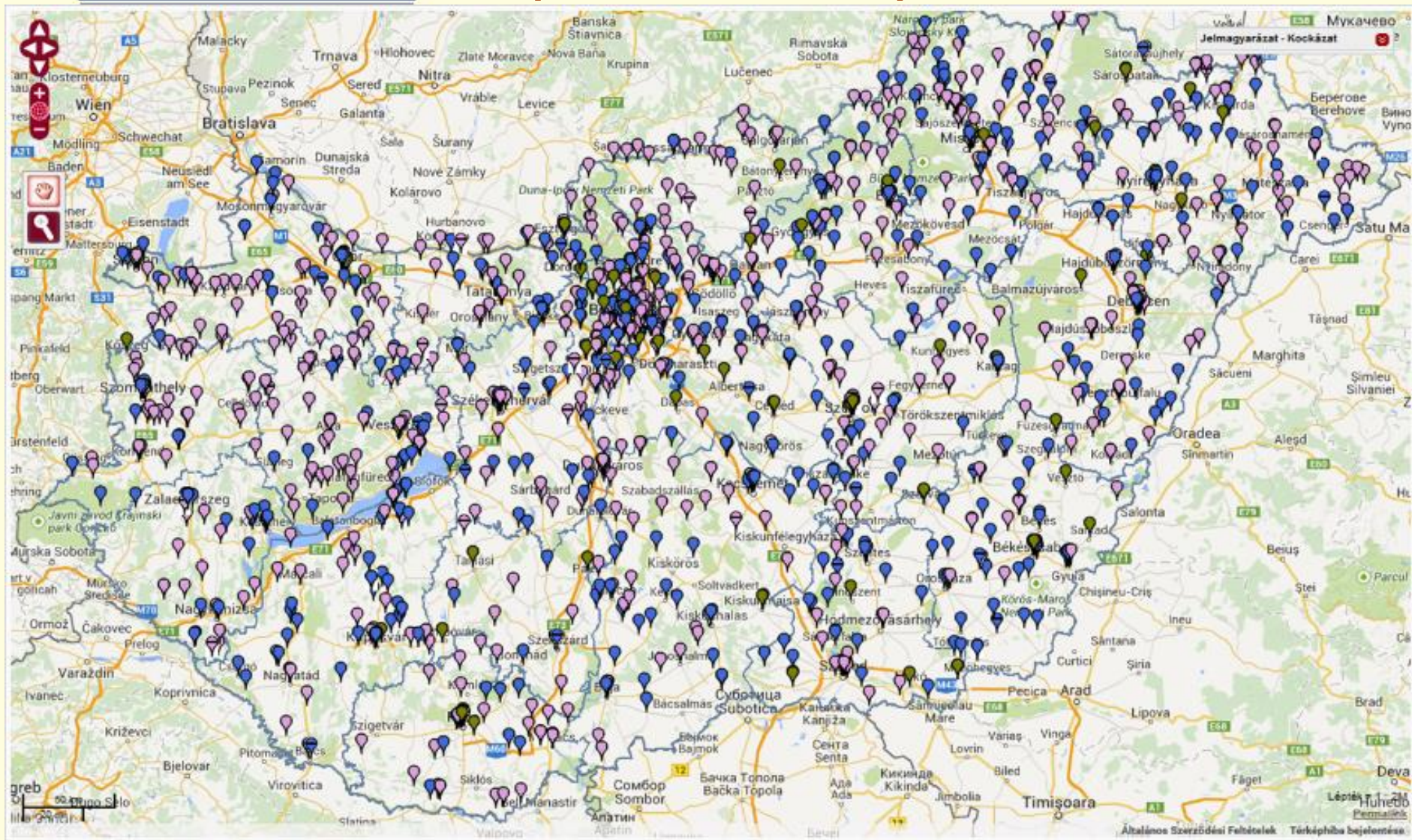


Organisation





# Participation rates on the corruption risk map



## Sustaining project results

- Maintain Integrity Homepage
- Launch 5 additional surveys till 2017
- Analyse data, constant assessment,
- **Turn experiences into audit practice**
- Applying integrity approach in the training of civil servants



# The term of “soft control”

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- It was almost unknown in Hungary. Therefore SAO had to define the content of this term.
- ‘Soft’ controls: controls not stipulated mandatorily in statutes. This definition doesn’t relate entirely how soft controls are used internationally, but in the Hungarian case it was practical to use this definition in order to differentiate the hard controls to the soft controls.
- These include the areas related to ethics or human resource management for example.
- There were six specific questions in the questionnaire by which SAO tried to measure the existence of the ‘soft controls’.

# Changes in the ratio of the application of “soft controls” (%)

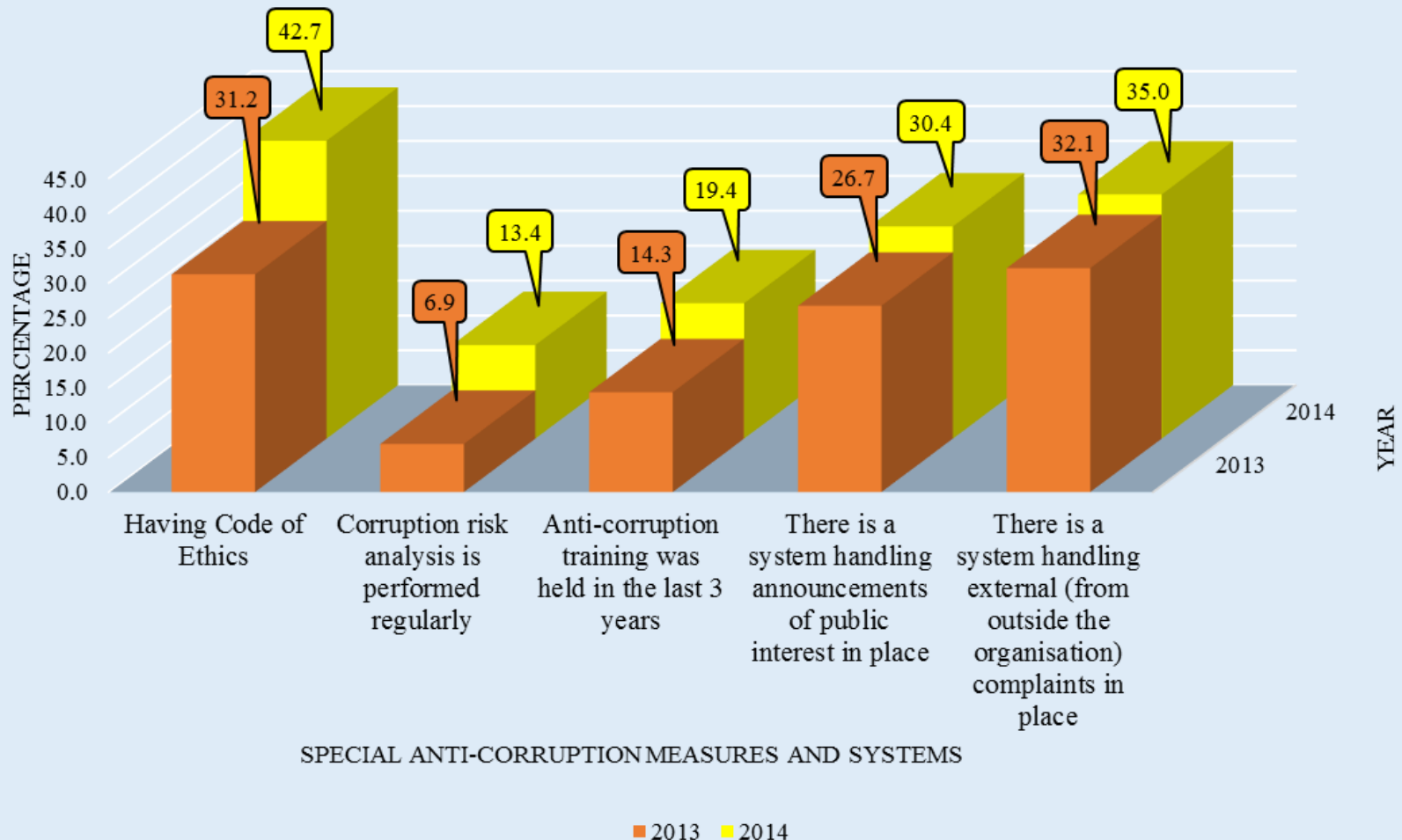
“Soft controls”	2011	2012	2013	2014
The issue of conflict of interest is regulated	82.4	85.5	80,3	82,7
Aspects of equity consideration are publicly disclosed	40.8	81.9	86,7	88,1
Relationships with outside players is regulated	9.7	11.1	21,7	21,6
Performance assessments has impact on the annual income of employees	52.6	53.7	51,1	46,9
Strengthening integrity is a strategic aim	54.7	52.5	57,4	57,8
Accepting of gifts, invitations and trips are regulated	16.8	19.0	20,9	27,0

# Special anti-corruption measures in the integrity survey

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- The survey's questions covered many of the hard integrity controls.
- 'Special' corruption measures a group of controls that were directly introduced to fight against corruption:
  - code of ethics,
  - procedures to deal with complaints and whistleblower reports,
  - anti-corruption training to their employees and conducted special corruption risk-analyses.

# The ratio of institutions applying special anti-corruption measures (2013-2014)




# Main changes in the development of „special controls” 1.

- The figure shows progress in different areas of special controls.
- Significant increase in the number of organisations that
  - had a code of ethics,
  - operating procedures to deal with complaints and whistle-blower reports,
  - providing anti-corruption training to their employees,
  - conducting special corruption risk analyses.
- The positive shifts were primarily due to the changes of the legal environment.

# Main changes in the development of „special controls” 2.

- In 2013 a Code of Ethics was accepted both for the civil servants and for the employees of the judiciary organisations: the ratio of the organisation having a Code of Ethics reached almost 100 percent among the judiciary organisations, government bodies and regional administrative organisations.
- Between the two survey periods a new law came into force on procedures to deal with complaints and whistle-blower reports with widened the scope of the organisations compelled to regulate these issues.
- Performing corruption risk analyses and organising anti-corruption trainings have become compulsory tasks for the central public administration units.





## Methodology for auditing integrity

# Integrity module within compliance audits

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- SAO has built in an integrity module into its compliance audits of the budgetary institutions.
- SAO applies two types of methodologies:
  1. Assessment of the integrity situation of the audited organisation.
  2. Assessment of the integrity controls of the audited organisation.
- The first version is applied in the case of those organisations which did not participate in the survey, (did not fulfill voluntary the questionnaire before),
- The second version is applied in the case of those organisations which participated in the survey.

# The questionnaire of the survey as an audit certificate

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- The questionnaire of the survey is an assessment tool which contains questions for the identification of typical corruption risks and typical integrity controls.
- Therefore it can be used during the audits as well.
- The audited organisation assesses its integrity situation by fulfilling the questionnaire. (The audited organisation must fulfill the questionnaire contrary to the survey when participation is voluntary.) By doing so the fulfilled questionnaire becomes an audit certificate.
- This certificate is called „long certificate” hence it contains all the answers to the 155 questions of the questionnaire.

# Evaluation of the results

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- SAO developed a system for the evaluation of the answers given to the questionnaire.
- The evaluation is based on the average value of the indices calculated for the given branch of the budgetary organisations to which the audited organisation belongs. (For example if the audited organisation is a hospital then the given branch is „healthcare institutions“.)
- The system uses a three-grade scale:
  - out standing,
  - appropriate,
  - to be improved.

# The evaluation system based on the long

## certification 1. step

- The evaluation is based on the indices calculated according to the methodology developed for the survey. The individual index of the audited organisation can be classified as: **high**, **medium** and **low** according to the following rules:
  - If the individual index of the audited organisation is higher by more than five percent than the average index calculated for the given branch of the budgetary organisations then the value of the index is classified as **high**.
  - If the individual index of the audited organisation is lower by more than five percent than the average index calculated for the given branch of the budgetary organisations then the value of the index is classified as **low**.
  - If it is between the two five percent limits, then the value of the index is classified as **medium**.

# The evaluation system based on the long

## certification 2. step

- During the second step the classifications of the Inherent Vulnerability Index and the Enhanced Factors Index are compared to the classification of the Existence of Controls Index.
  - If the later is better than the classification of the risk index then the control level is regarded **„outstanding“**;
  - If the later is worse than the classification of the risk index then the control level is regarded **„to be improved“**;
  - If the later has the same classification than the risk index then the control level is regarded **appropriate**.




# Table for the evaluation of the long certificate

	ranking	Existence of Controls Index		
		low	medium	high
Inherent Vulnerability Index	low	appropriate	outstanding	outstanding
	medium	to be improved	appropriate	outstanding
	high	to be improved	to be improved	appropriate
Enhanced Factors Index	low	appropriate	outstanding	outstanding
	medium	to be improved	appropriate	outstanding
	high	to be improved	to be improved	appropriate

# The evaluation system based on the long certification (Example)

- Inherent Vulnerability Index of a hospital is 39,5 %
- Inherent Vulnerability Index of the healthcare branch is 33,8 %.
- Consequence: inherent vulnerability of the given hospital is **high**.
- Enhanced Factors Index of a hospital is 35,6 %
- Enhanced Factors Index of the healthcare branch is 34,8 %
- Consequence: vulnerability caused by the enhancing factors is **medium**
- Existence of Controls Index of a hospital is 67,4
- Existence of Controls Index of the healthcare branch is 74,1 %
- Consequence: the control level of the hospital is **low**.
- Classification: „**to be improved**” since the risk level is relatively high and the control level is relatively low.



Methodology for auditing integrity

## 2. Assessment of the integrity controls of the audited organisation

# The audited groups the integrity controls

- Based on the experience of the integrity survey we selected five groups of controls which are important for the creation and maintenance of organisational integrity. These are the followings:
  - conflict of interest regulation and ethical commitments,
  - controls of the human resource management,
  - measures due to protect the properties of the organisation,
  - measures against employees' misconduct,
  - measures aimed at strengthening integrity and raising awareness of the corruption risks.

# Questions for auditing of the integrity controls: the short certification

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- 5-6 questions for each group of controls were selected from the integrity survey questionnaire and are asked from the audited organisations as a part of the integrity module.
- The answers to these questions form the so called short integrity certificate which is used for the evaluation of the integrity controls of the audited organisation.
- The evaluation system uses a three-grade scale:
  - out standing,
  - appropriate,
  - to be improved.

# Audit questions (examples)

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- In what form does your organisation regulate the matter of conflict of interest?
- Does your organisation have a special policy for the conditions of hiring external experts?
- Does your organisation perform systematic risk analysis other than planning internal audit tasks?
- Do your organisation's internal regulations require every member of the staff to declare any economic or other interests that are relevant for the organisation's activity?
- Does your organisation regulate the conditions of accepting various gifts, invitations?



# The evaluation system based on the short certification 1. step

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- Each group of the controls are evaluated separately. The classification of the group of control is
  - „out standing” if all but one controls exist at the organisation
  - „appropriate” if only two of the controls does not exist at the organisation
  - „to be improved” if more than two of the controls were not introduced by the organisation

# The evaluation system based on the short certification 2. step

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- An aggregated classification is calculated as the average of the five group classifications.
- „out standing”: 2 points/group
- „appropriate”: 1 point/group
- „to be improved”: 0 point/group
- The aggregated classification is:
  - „out standing” 8-10 points
  - „appropriate” 5-7 points
  - „to be improved” below 5 points

# Auditing the “soft” controls

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- The development of audit methodology: incorporating groups of questions in our audit programs from the issues raised in the integrity survey.
- This way regularity audits can be made more focused.
- We attempt not only to audit the “hard controls” required by law, but also to include the development of “soft controls”, because they play a significant role in the question whether the activity of a public institution is in line with the ethical norms and other values stated by regulations or by the organisation itself.
- Therefore questions related to „soft” controls are part of both the short and the long certificates.

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- There were six specific questions in the questionnaire by which SAO tried to measure the existence of the ‘soft controls’.

## List of “soft controls”

- The issue of conflict of interest is regulated
- Aspects of equity consideration are publicly disclosed
- Relationships with outside players is regulated
- Performance assessments has impact on the annual income of employees
- Strengthening integrity is a strategic aim
- Accepting of gifts, invitations and trips are regulated



**Thank you for your kind attention!**

