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# *Integrity Risks and Controls of Public Services*

**SUMMARY:** 2017 marks the seventh year that the State Audit Office of Hungary conducted an Integrity Survey evaluating the corruption risks of public sector institutions and the availability of integrity controls ensuring protection against corruption. 3346 organisations provided data for the research. This study examines the integrity situation of public services. 64% of the institutions which responded provide public services. According to the results of the research, the provision of chargeable services, the possibility of exercising equity and the excess demand for the services carry significant integrity risks. Integrity is supported by the fact that in the case of cash benefit, an official handover document is usually drawn up and the majority of the institutions appropriately regulate the issue of conflict of interest. However, only one third of the institutions has established a system for supporting complaints and whistleblowing. In addition, particularly in case of organisations where demand permanently exceeds supply, the inappropriate regulation of the acceptance of gifts, invitations and travels draws the attention to a major deficiency within public sector integrity.

**KEYWORDS:** integrity controls and risks, public services

**JEL-CODES:** H830, K4, K420

**I**t is a well-known correlation that the interface between the public and the private sector carries corruption risks (Economakis et al., 2010).

## A THE INTEGRITY SITUATION OF INSTITUTIONS PROVIDING PUBLIC SERVICES

The integrity analysis of the provision of public services is of primary importance, as citizens are in contact with public services on a daily basis: our children attend kindergarten and school, we see doctors, visit museums and use public utility services. The quality, availability and integrity of the public sector and public services can be one of the sources promoting

the confidence of citizens. Despite this, the integrity of this area is rarely in the focus of corruption research Jain, Nundy és Abbasi, 2014). Corruption surveys often examine the corruption practice of major investments, tenders, official and control activities. International research mainly focuses on integrity challenges in healthcare from among human public services (Abigail et al., 2009). Studying the integrity of the healthcare of developing countries, *Maureen* (2006) states that the biggest challenge is posed by the deficit, illegal financing, corruption and inadequate administration. *Morais* et al. (2017) draw attention to the fact that the high level of corruption is related to low quality healthcare and education services, as well as to a low standard of living. Several studies, including surveys conducted by Transparency International, deal with the phenomenon of the gratuity system.

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*Jain et al.* (2014) claim that the bribe diverts resources from high priority services into the pockets of doctors. According to the authors, the payment of bribes to get “a little ahead, a little extra, a little quicker” can become ingrained in people’s attitudes.

At the same time, in relation to the provision of public services, corruption risks may appear not only in the area of healthcare.

On the one hand, citizens are interested in receiving the best human and public utility services of the highest quality provided by the state in optimal amount, at optimal time and price. On the other hand, deficit exists in several cases, which further increases corruption pressure. Understandably, people wish to come on sooner in administration, achieve that their street is the first in which the sidewalk is paved and enrol their children in a school specialised in English etc. Scarcity and excess demand play a key role in explaining corruption in an economic sense. In relation to public utility services, *Clarke and Xu* (2002) state the following: If the need for access to the public utility concerned (energy provider, telecommunications provider) exceeds the current possibilities of the public utility infrastructure, corruption contribution is added on the price of access, which is realised as profit for the employees responsible for taking decisions on the expansion of the public utility or the repair of the service. The researchers found that in places where the infrastructure concerned enables extensive and equal access, corruption contribution was lower or less frequent. Regarding the structural embeddedness of corruption, it is a warning sign that the likelihood of corruption is higher in societies of transition or at the early stage of capitalist development when there is excess demand for the rights provided or the resources redistributed by the state (*Khan*, 2007). It can be established that no matter what public service is concerned, waiting for

the service and the occurrence of corruption are closely related. In view of the above, it can be observed that the public-sector employee taking part in the provision of the public service can deliberately delay the solution of the problem in order to establish stronger interest in bribery (*Lambsdorff*, 2001). Another case of corruption is when the fundamental principle of the distribution of a specific public service is egalitarian, based on equality, while the public services organised along this principle is coupled with an unequal social structure in terms of its ability to enforce financial interests. The argumentation that, if productive and less productive economic operators can use public utility services under the same conditions it has a negative effect on the efficiency of the economy as a whole, is also based on the above concept. Here, corruption may contribute to the restoration of the Pareto efficiency (*Rashid*, 1981).

### Regulation of the integrity of domestic public bodies

In Hungary, the spread of the culture of integrity can be clearly monitored at the level of regulation (*Németh et al*, 2017; *Lentner*, 2017). In particular, over the past seven years laws, guidelines, professional codes of ethics and government strategies have introduced integrity-enhancing tools that were previously unknown, or have rendered previously “soft” integrity controls legally binding. Yet, the integrity-oriented regulation of the provision of human public services and of the institutions carrying out such activities is lagging behind the enhancement of the personal integrity of public-sector and government officials.

Certain elements of the national anti-corruption activity already came into existence after the change of regime. However, the system of anti-corruption institutions integrated into

the strategic action plan was established only in 2011. The Fundamental Law adopted in 2011 prescribes that subsidies and payments from the government budget can be transferred to transparent organisations only. The Fundamental Law also states that every organisation managing public funds is required to publicly account for its management of public funds, as the data of public funds and national assets are of public interest. In 2012, a government decision on anti-corruption government measures and the public administration's corruption prevention programme was adopted. The main goal of the programme is to suppress corruption related to public services and increase the resistance of the institutions. In order to enhance the personal integrity of public-sector employees and government officials, the government published a Green Book on the ethical requirements at government bodies, which was followed by the introduction of codes of ethics in different professions.

As of 2013 a government decree prescribes the elements of the integrity management system to be implemented on a compulsory basis for public administration bodies under the supervision of the government [Government Decree No. 50/2013 (II. 25.) on the Integrity Management System of Public Administration Bodies and the Order of Receiving Lobbyists]. Based on this, public administration bodies have to annually assess the integrity risks related to their operation and draw up an action plan based on the risk assessment. The leader of the organisation must ensure that the organisation receives and investigates reports on integrity risks. The integrity advisor, whose employment is compulsory at such bodies, is to take part in the assessment of integrity risks, in the preparation of the action plan for managing such risks and the integrity report on the implementation of the plan. The advisor is to plan the anti-corruption trainings of the organisation and give advice to the employ-

ees of the organisation on ethical questions related to their profession on occasional basis. The aforementioned Government Decree also prescribes that the employees of a public administration body can meet lobbyists only in connection with the fulfilment of their tasks, after prior notification to their superior.

No similar compulsory integrity management system applies to public service providers and public-sector employees. At the same time, the integrity-enhancing provisions of Government Decree No. 370/2011 (XII. 31.) on the Internal Control System and on the Internal Audit of Central Budgetary Institutions must be applied to a wider range of public administration bodies, including a significant percentage of service providers. However, the rules enhancing organisational integrity are less integrity-specific than the rules applying to public administration bodies. Basically, they incorporate integrity-enhancing processes into the integrated risk management system. However, it is obvious progress that Government Decree No. 370/2011 (XII. 31.) on the Internal Control System and on the Internal Audit of Central Budgetary Institutions defines the term "event damaging organisational integrity", and prescribes that the leader of a budgetary institution is to regulate the rules of procedure of the management of events damaging organisational integrity, the methodology of the assessment of the reported events, the method of collecting the information required for the investigation of the report, as well as the rules of procedure of interviewing the people concerned. It is an important provision that each Hungarian budgetary institution is to take the necessary measures to prevent events damaging organisational integrity and establish rules for the protection and recognition of the whistle-blower within the organisation and the provision of information about the results of the investigation.

There is no standard statutory definition

for the term “public service”. The provision of public service tasks is detailed by sectoral legislation. Pursuant to point d) of Section 3 of Act CXXV of 2003 on Equal Treatment and Promotion of Equal Opportunities, *“public service is a service for the purpose of satisfying the basic needs of people based contractual obligation, in particular electricity, gas etc.”* According to the definition of Act CXCVI of 2011 on National Assets, the aim of the fulfilment of public duties is to provide public services to the population, satisfy the basic needs/interests of the general public and the community and provide the infrastructure for the fulfilment of the aforementioned tasks. The legislation on waste management and chimney sweeping activities also refer to the fact that such activities are considered public services.

### Research objective

The research objective: based on the assessment of the risks threatening organisational integrity in the course of the provision of public services, we wish to present the most wide-spread factors increasing corruption risk at public service providers, as well as describe how the institutions develop and operate their controls to mitigate such risks.

## METHODS

### Target area, database

The national data collection took place in 2017 on 7 occasions by means of electronic questionnaire that was downloadable from the Integrity Portal of the State Audit Office of Hungary. The 2017 survey covered the period between 1 January 2016 and 31 December 2016, but some questions concerned the past three years. Where a question did not include

reference to the three-year period, respondents were requested to provide data concerning the situation as at 31 December 2016.

The database of the public bodies that took part in the 2017 survey was based on the master register of the Hungarian State Treasury as at 31 December 2016. In 2017, 10,245 organisations featured in the database were requested to take part in the survey. For example, school districts, minority self-governments (except for the national minority self-governments) and those organisation which had a PIR number but did not have an e-mail address (e.g. certain local government associations, economic service providers, etc.) were not invited.<sup>1</sup> In the general request letter sent to the local governments, we asked them to complete a separate questionnaire for those budgetary institutions which have their own PIR numbers and are maintained by the local governments. Data collection took place from 25 May 2017 to 14 July 2017.

### Structure of the questionnaire

Our primary goal was to identify the characteristics of corruption risks at public sector institutions. In order to specify the corruption risks threatening public institutions and the development level of the relevant controls, we used a questionnaire consisting of 16 question groups with altogether 169 questions. Institutions with different legal status and belonging to a different group completed the same standard questionnaire. The majority of the 169 questions are dichotomous (yes-no) questions. In order to adjust the questionnaire to institutional characteristics, in some cases, the “not applicable” option was added. Apart from the questions above, the structure of the questionnaire also includes multiple-choice questions, some of which offer one, while others offer several answers. The third question

group contains questions where the responding organisation provides a response by entering various numerical data. The completion of the questionnaire was voluntary. During the data collection period, the questionnaire was available on the following website: <http://integritas.asz.hu/>.

### Data processing, forming indices

After receiving the responses to the questionnaire, the available data set was organised and cleaned. The individual variables were made processable by means of statistical methods and analysed the IBM SPSS Statistics and the Microsoft Excel programmes. Those cases where the respondents had not provided data or any answers that could be evaluated were regarded as incomplete data in the system. Based on the responses to the questionnaire, by means of a pre-defined algorithm, the computer survey and data processing system calculates an index in a percentage form, representing the involvement of the institutions in corruption (Báger, 2011).

These are the following:

**THE INHERENT VULNERABILITY INDEX (IVI)**, which makes the components of the inherent vulnerability that depend on the legal status and tasks of organisations measurable. The index is defined by factors whose formation falls within the legislative authority of the founding body, such as (legal) regulation, application of law by the authorities or the provision of various (educational, healthcare, social and cultural) public services.

**THE ENHANCED FACTORS INDEX (EFI)**, which captures the components that increase inherent vulnerability depending on the day-to-day operation of various institutions. It maps the characteristics of the legal/institutional environment of budgetary institutions, the predictability and stability of their operation, as

well as variable factors – fundamentally shaped by the decisions of current management – that arise during the operation of institutions, such as the definition of strategic goals, the establishment of organisational structure and culture, as well as the management of human and budgetary resources and public procurements (Pulay, 2014).

**THE EXISTENCE OF CONTROLS INDEX (EoCI)** reflects whether a given organisation has institutionalised controls in place, and whether those controls actually function and effectively meet their goals. This index includes factors such as the internal regulation of the organisation, external and internal auditing, as well as other integrity controls: defining ethical requirements, managing situations involving conflicts of interest, handling reports and complaints, regular risk analysis and conscious strategic management.

**IN RESPECT TO THE CORRUPTION RISKS AND CONTROLS OF PUBLIC SERVICES**, we analysed the results of the latest survey conducted in 2017. Based on the questions of the Integrity Survey, we selected the risks related to public services and the key controls covering them. In the area of providing public services, an aggregate risk index was formed from the risk-increasing factors (an inherent vulnerability index, as well as seven risk-increasing factors). In order to determine the control level, an index was formed on the basis of eight controls mitigating the risk of public services. *Table 1* contains the components of the indices.

### Sample, the number of organisations responding to the questions

In 2017, altogether 3,346 organisations completed and returned questionnaires that could be evaluated. In the course of data processing, the organisations responding to the questions were classified into 15 groups of institutions,

Table 1

QUESTIONS AND INDICES RELATED TO PUBLIC SERVICES			
QUESTION NO.	QUESTION	INDEX	TYPE
55	Does your organisation provide any public service to satisfy community needs based on a statutory requirement (e.g. nursery or kindergarten care, public education, higher education, healthcare or other welfare services, energy supply, drinking water supply, public transport, waste management, etc.)?	IVI	fundamental question
56	If your organisation provides public services, do they include any where user demand for the particular service typically exceeds the available service supply permanently and substantially?	IVI	
57	If your organisation provides public services, is any of them subject to a fee?	EFI	risk index
58	If your organisation provides public services, is the service fee determined by your organisation?	EFI	
59	If your organisation provides public services, does the organisation have powers to waive or reduce the service fee for equity?	EFI	
60	If your organisation provides public services, can clients fully learn the terms of using public services?	EFI	
61	If your organisation provides public services, does its policy for providing public services enable the use of services under individual terms – based on a special decision by the organisation?	EFI	
62	If your organisation provides public services, has it established a system for managing complaints related to public services?	EFI	
90	Did your organisation receive, either directly or indirectly (e.g. through a foundation) any grant, monetary or other material support from private organisations or individuals in the last year?	EFI	
63	If clients receive benefits in cash or in kind as part of public services, do you prepare an official delivery-acceptance certificate about this?	EoCI	control index
119	How does your organisation regulate conflict of interest?	EoCI	
120	Do your organisation's internal regulations require staff to declare any business or other interest that is relevant for the organisation's activity?	EoCI	
121	Does your organisation regulate the terms of accepting various gifts, invitations and trips?	EoCI	
122	Does your organisation have an internal policy for protecting whistle-blowers within the organisation?	EoCI	
133	If some of your organisation's staff are required to file an asset declaration, is their scope specified accurately?	EoCI	
154	Does your organisation operate a system to manage external complaints (i.e. from outside the organisation)?	EoCI	
155	Does your organisation operate a system to manage whistle-blowing?	EoCI	
159	Does your organisation have workplace rotation in place?	EoCI	

based on their sectoral codes (NACE) in the register of the Hungarian State Treasury.

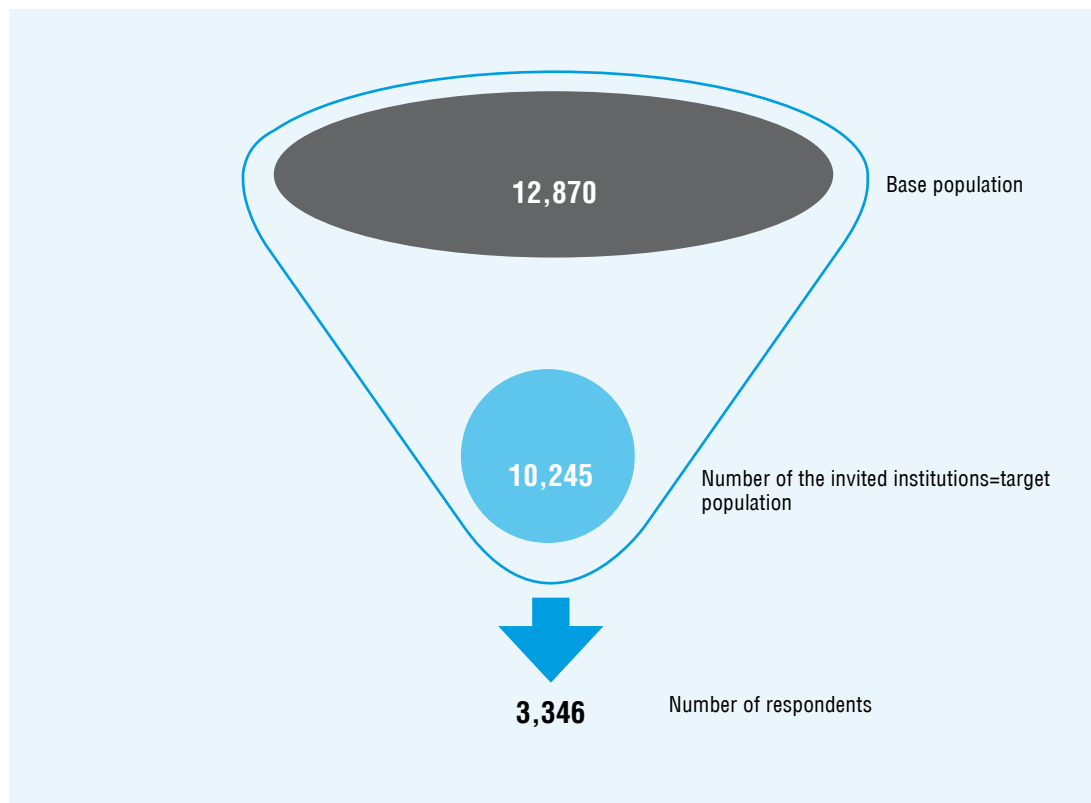
In the framework of the data collection, 10,245 public bodies were requested to respond of whom 3,346 institutions sent back a questionnaire that could be evaluated (*see: Figure 1*). In the case of the majority of the institution groups, our sample cannot be considered as representative. Where our sample does not show any signs of representativity, the results cannot be projected to all public bodies. Although the composition of the respondents does not fulfil the requirements of representativity, general trends can be described due to the large sample size. The base sample includes groups of institutions in which the respondent institutions and the institutional group segment of the base sample completely cover each other (government bodies, regional

administrative bodies). The survey provided a complete overview of the changes affecting such institution types.

In each annual data survey, local governments form the institution group with the highest sample unit number. In the 2017 data survey, 47% of all the respondent institutions were local governments. Consequently, changes in this group can affect the risk and control level of the public sector on their own. The appearance of integrity advisors responsible for corruption risk analysis at administrative bodies under the management or supervision of the government, except at law enforcement agencies and the Military National Security Service, presumably had an influence on the change in the number of institutions completing the questionnaire. The high participation was supported by the government decree on

Figure 1

**POPULATION AND SAMPLE UNIT NUMBERS RELATED TO DATA SURVEY**



the National Anti-Corruption Programme and on the Action Plan on related measures for 2015–2016, in which the government promoted participation in the integrity survey conducted by the State Audit Office of Hungary, as well as by an initiative of the State Audit Office of Hungary called Integrity Supporters’ Group (Németh, Vargha, 2017). These were the organisations that committed to take part in the anti-corruption survey conducted by the State Audit Office of Hungary each year until 2017.

More institutions took part in the 2017 data survey than ever before. The number of respondents exceeded the 2016 figure by 11.5%, and was three times as high as the participation rate of the first survey in 2011 (see Figure 2).

The institutions taking part in the 2017 survey employ 61.9% of public-sector employees (government officials, civil servants, public-sector employees). New participants

joined from local governments, other administrative bodies, law enforcement and military agencies. The institutions joining the survey also affected the change of the indices due to their scope of responsibilities and legal status (see: Table 2).

## RESULTS

### Public service: risks and controls

Based on the data of the survey, 64% of the responding institutions provide public services. When analysing the responses by institution group, it is observable that the percentage of institutions that answered yes to this question was the highest in the case of higher education institutions (100%), healthcare institutions (91%), kindergartens and crèches (87%) and social care institutions (83%). On the

Figure 2

### CHANGES IN THE NUMBER OF RESPONDENT INSTITUTIONS (2011–2017)

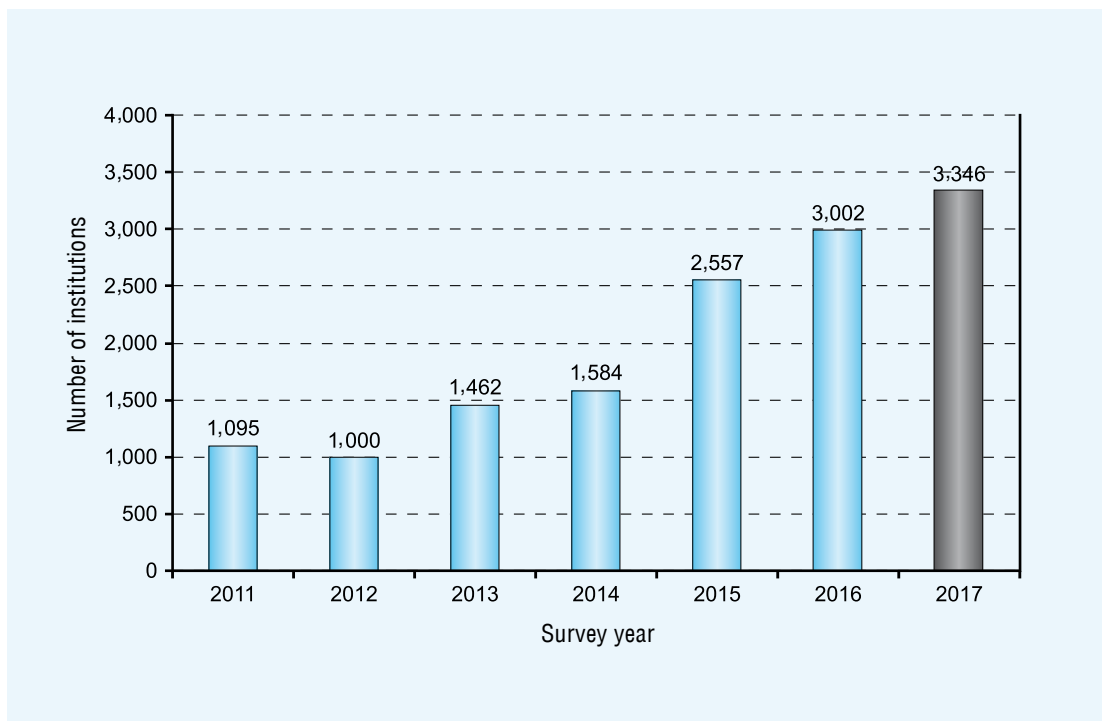




Table 2

**CHANGE IN THE NUMBER OF RESPONDENT INSTITUTIONS BY INSTITUTION GROUP (2013–2017)**

Name of the institution group (2017)	Years				
	2013	2014	2015	2016	2017
Primary and secondary education	201	288	133	81	68
Healthcare institutions	54	53	110	110	110
Other - administrative institutions	46	48	195	175	184
Other activities	41	47	14	72	27
Higher education	22	23	25	23	22
Independent state authorities	6	6	9	12	10
Local governments	670	706	1,106	1,376	1,574
Jurisdiction	22	25	29	23	27
Government bodies	7	7	8	10	8
Cultural and recreational institutions	65	62	185	223	248
Kindergarten, crèche	147	153	303	380	571
Law enforcement and national defence	64	61	123	123	118
Institutions providing social services	82	74	276	354	340
Regional administrative bodies	24	20	20	20	20
Scientific research, development	11	11	22	20	19
<b>Total</b>	<b>1,462</b>	<b>1,584</b>	<b>2,557</b>	<b>3,002</b>	<b>3,346</b>

other hand, only 51% of cultural institutions answered yes. The respondent independent government bodies and institutions dealing with scientific research and development do not provide public services, while only 8% of law enforcement and defence institutions carry out such activity.

**Integrity risks**

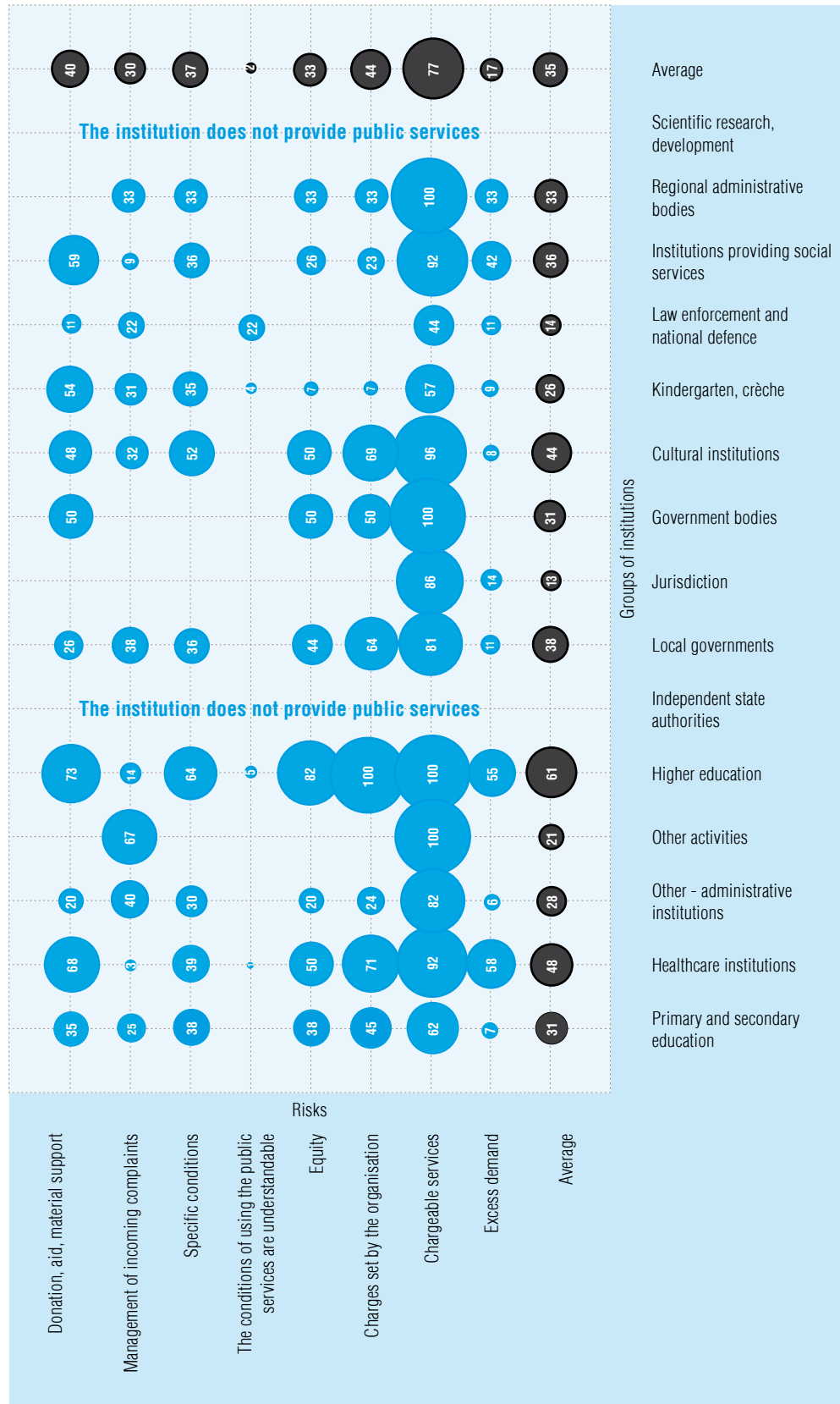
We then examined to what extent public service providers are threatened by risks and have controls related to public services. *Figure 3* shows the distribution of the responses given to the questions by institution group, more specifically, the percentage of institutions that are threatened by the given risk. The last column of the figure shows the averages of risks in the circle where public services are provided.

BASED ON OUR FINDINGS, THE PROVISION OF CHARGEABLE SERVICES means a high risk level. 77% of the institutions surveyed provide chargeable service. The level of the aforementioned risk is higher than the average in the groups of healthcare institutions, other administrative bodies, institutions responsible for other activities, higher education, local governments, jurisdiction, government bodies, cultural institutions, social care institutions and regional administrative bodies.

Corruption risk is further increased IF THE ORGANISATION ITSELF SETS THE SERVICE CHARGE. The aforementioned risk is typical in 44 percent of the organisations questioned. In the group of healthcare institutions, this rate is 71%, which considerably exceeds the average of all the respondents, just like in the groups of higher

Figure 3

**RISK LEVEL OF PUBLIC SERVICE PROVIDERS REGARDING THE EXISTENCE OR ABSENCE OF CERTAIN RISKS (IN PERCENTAGE)**



education institutions, local governments and cultural institutions.

**THE POSSIBILITY OF EXERCISING EQUITY** is a top priority risk factor. 33% of our public institutions enable this. At the same time, 82% of higher education institutions responded that they were entitled to reduce service charges for reasons of equity, which is significantly higher than the average of institution groups with similar powers. Almost half of the healthcare institutions, government bodies and cultural institutions answered yes to this question.

**THE LACK OF AN OPPORTUNITY TO LEARN ABOUT THE CONDITIONS OF THE USE OF PUBLIC SERVICES SIGNIFICANTLY INCREASES THE RISK OF CORRUPTION.** It can particularly damage public confidence if citizens are not familiar with the reasons based on which certain equity decisions are taken. Merely 2% of the respondents answered no to this question, therefore this risk factor does not exist in most institution groups. Only law enforcement and defence institutions provide significantly less than average opportunities for citizens to learn about the conditions of using the public service they offer.

**IN ADDITION TO THE POSSIBILITY OF EXERCISING EQUITY, USING SERVICES UNDER SPECIFIC CONDITIONS ALSO SIGNIFICANTLY INCREASES CORRUPTION RISK.** 37% of our domestic public institutions enable this. In this respect, cultural institutions, higher education institutions, healthcare institutions, general and primary education institutions exceed the average of all public service providers.

**THE LACK OF A SYSTEM FOR HANDLING INCOMING COMPLAINTS ALSO POSES AN INTEGRITY RISK.** This deficiency could be observed at 30% of the public bodies surveyed. The findings of the research definitely prove that the lack of a complaint handling system is more than the average in the following categories: other – administrative activities, other activities, local governments, cultural institutions, kindergarten, crèche and regional administrative

bodies. The aforementioned problem is especially serious as the institutions in these areas provide a wide range of public services, but citizens cannot report the irregularities they experience, the organisations do not identify the problems, do not handle the complaints, therefore services cannot be developed.

**THE ACCEPTANCE OF DONATIONS AND AIDS ALSO POSES AN INTEGRITY RISK TO A CERTAIN EXTENT.** Several institution groups give the opportunity (e.g. via foundations, helplines) for citizens and economic operators to support their operation by offering donations, aids and material contributions (40%). This poses a risk as citizens may attempt to gain personal advantage by supporting the foundation of an institution. Healthcare institutions, higher education, government bodies, cultural institutions, kindergartens, crèches and institutions providing social services are most at risk.

**EXCESS DEMAND FOR THEIR SERVICES ESPECIALLY INCREASES THE RISK OF CORRUPTION.** 17% of the respondents answered yes to the question: “If your organisation provides public services, do these include any where user demand for the particular service typically exceeds the available service supply permanently and substantially?”. At the same time, there are major differences between various types of institutions. Healthcare institutions, higher education, the social welfare system face the highest excess demand, which poses a more serious threat not only to their integrity situation, but to the equitable access of citizens to public services, as well.

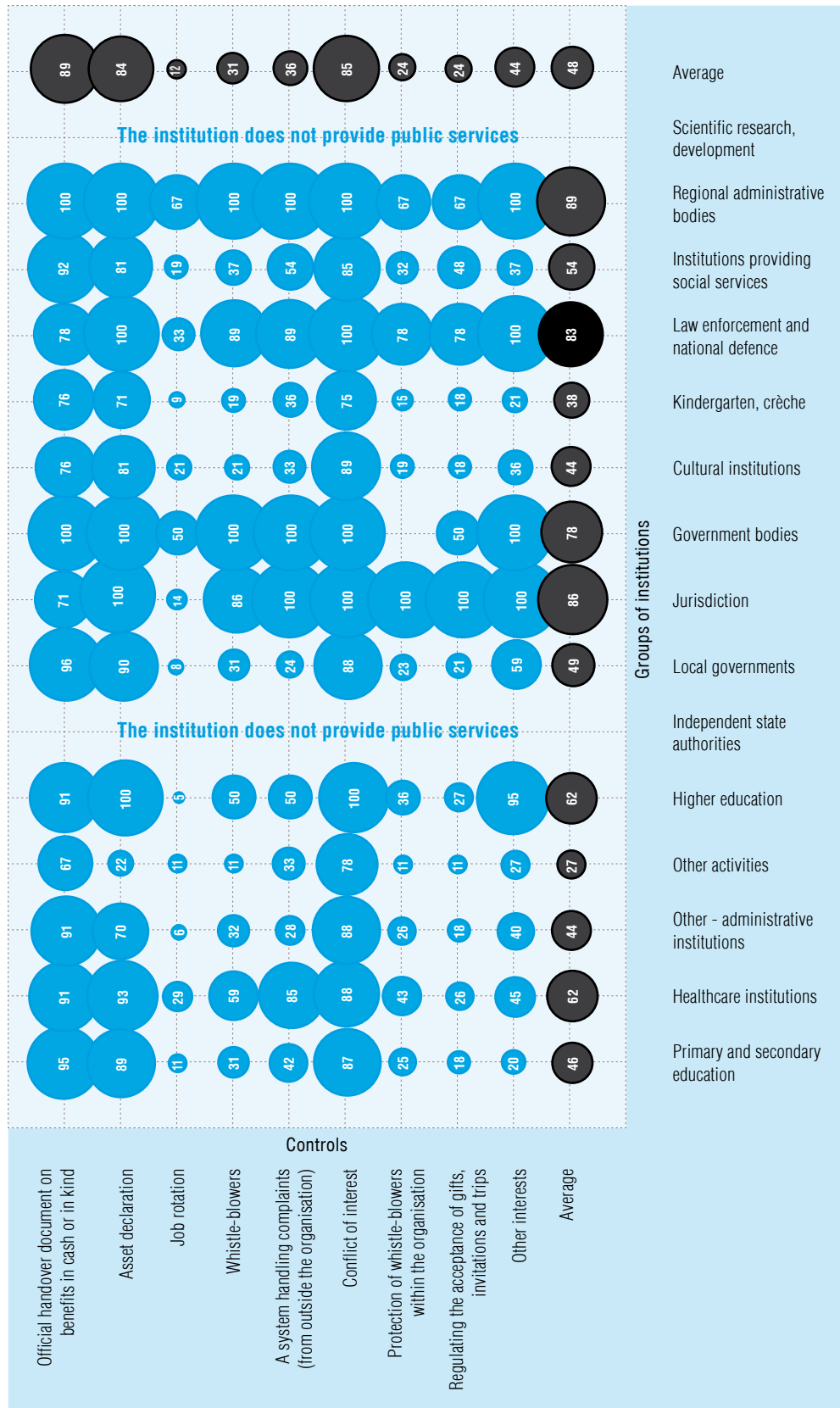
### ***Risk-Reducing Controls***

After the risk levels, we also examined the control levels related to public services in each institution group (*see: Figure 4*).

In the case of **BENEFITS IN CASH OR IN KIND**, 89% of public service providers drafted an official handover document, which is a fundamental integrity control factor. In the

Figure 4

**THE CONTROL LEVEL OF PUBLIC SERVICE PROVIDERS REGARDING THE EXISTENCE OR ABSENCE OF CERTAIN CONTROLS (IN PERCENTAGE)**



group of other activities, this proportion is only 67%.

In the case of **ASSET DECLARATION OBLIGATION**, 84% of the respondent institutions determined the circle of persons obliged to make an asset declaration, thus controlling possible wealth increase that may damage integrity.

**WORKPLACE ROTATION** – as a possible means of control – is not widespread. According to international professional literature, workplace rotation is a necessary means of control when frequent meetings lead to personal relationships, which may be an advantage in taking certain decisions (Burguet et al., 2016, Tunley et al., 2017). It should be noted, however, that it is usually a requirement at authorities and controlling institutions. Examining the situation in Hungary, we found that only 12% of the institutions use this instrument. This control is the most widespread at regional administrative bodies, in the group of law enforcement and defence institutions, at government bodies and in the group of healthcare institutions, while its use is above the average at social care institutions, cultural institutions and judiciary institutions.

**THE SYSTEM OF PUBLIC INTEREST DISCLOSURES/WHISTLEBLOWING** is not very well-established in Hungary (31%). Some groups of institutions, such as institutions carrying out other activities, cultural institutions, kindergartens and crèches, are even significantly below the low average in this respect. The lack of this system draws attention to the fact that the reporting of activities that damage integrity and the elimination of the detected irregularities in operation is difficult without such a system.

85% of the institutions regulates **THE ISSUE OF CONFLICT OF INTEREST**, which greatly promotes integrity.

However, **THE LACK OF REGULATING THE ACCEPTANCE OF GIFTS, INVITATIONS AND TRAVELS** draws attention to a major anomaly within public sector integrity. Only 24% of the respondents

applied this fundamental means of control. In relation to public services, bribery and corruption are topics that come up all the time. Public service providers who do not regulate the acceptance of gifts are particularly threatened. Regulating the acceptance of gifts, invitations and travels is inadequate at educational institutions, from kindergartens to universities, at healthcare, cultural and social care institutions and at local governments. In other groups of institutions, for example in the area of law enforcement and defence, as well as at judiciary institutions, this type of control is well-established.

Less than half of the institutions oblige their employees in their internal policies to **MAKE A DECLARATION ABOUT THEIR ECONOMIC INTERESTS**. However, identifying economic interests for certain activities and positions in decision-making is a fundamental means of control. As far as the regulation of other interests is concerned, the percentage of the institutions belonging to the group of other activities is remarkably low.

**IN CONCLUSION:** organizations that charge a fee for the public services they provide, the ones that are under strong demand pressure or have broad discretion, but do not have counterbalancing special controls particularly carry risk (e.g. regulation of complaint handling, regulation of the conditions of the acceptance of gifts, regulation of conflict of interest and the declaration of economic interests, etc.) In the next part of our study, we will examine the development of key controls related to special risks.

### Relationships between the risks of public services and their controls

After examining risk and control levels, we explored the relationship between them. We wanted to find out whether institutions with

higher risk levels had developed integrity controls to a greater extent in order to mitigate risks.

In Figure 5, the columns show the percentage of those respondents that claimed to provide public services.<sup>2</sup> The green or black dashed lines indicate the aggregate risk and control indices of such institutions. The value of correlation between the two indices in the group where the percentage of public service providers exceeds 30% is 0.9, which shows a strong, positive relationship. Consequently, based on the findings of the research, in institution groups which provide a higher percentage of public services, the coverage by controls was higher if the risk level was higher.

On the other hand, when assessing the relationship between the risk and control indices

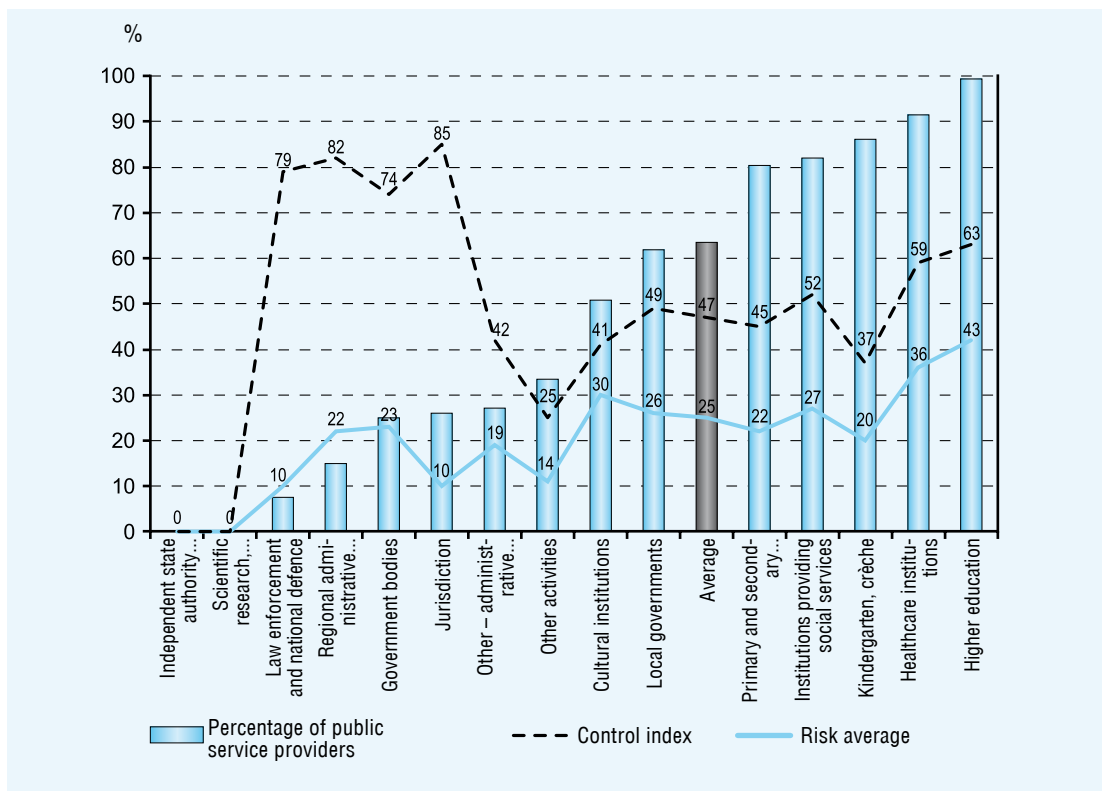
related to public services of all the respondent institutions, the relationship is weak and negative:  $-0.3$ . The value draws attention to the fact that the relationship between the control and risk indices of public service providers is stronger than in the case of all the respondents (public service providers and institutions that do not provide any public services). The control levels of some organisations that provide public services at a lower rate (law enforcement and defence, regional administrative bodies, government bodies, jurisdiction) are strikingly high, which might be related to their official and control activity.

**Special risks and controls**

If we examine certain key risks and the key controls that mitigate such risks, the charac-

Figure 5

**THE WEIGHED INDICATORS OF THE RISK AND CONTROL INDICES OF PUBLIC SERVICE PROVIDERS RELATED TO PUBLIC SERVICES BY INSTITUTION GROUP**



teristics of the individual institutions can be more deeply observed. The identification of the characteristics of such risks at public institutions helps to identify the strengths and weaknesses of the related control system, as well as the possibilities for the development of the system. We will present three out of the key risks and controls in detail.

*Excess demand, accepting gifts, invitations and trips*

The equitable distribution of public services, that is the use of public services on a legitimate need, may be damaged in practice if the demand and supply are out of balance and there is excess demand for a certain service (Vasvári et al., 2017). The corruption risk will be generated by the fact the due to the supply “shortage”, citizens will be interested in buying the services from other providers faster and in a higher quality. On the other hand, service providers and those who are involved in the provision of services at a certain level (representatives of the authorities, experts, etc.) shall take advantage of the situation by giving priority to their own interests and ignoring the fundamental principles of public service. The risk level is reduced if public service providers have policies on the acceptance of gifts, travels and other benefits.

By means of a regression procedure, we examined how the supply shortage affects the institutions’ gift policy (that is how the risk affects the establishment of controls). The increase of the shortage by one unit increases the level of the regulatory environment by 0.102 on average. The p value of the regression model is 0.729. Based on this, shortage is not a significant parameter, therefore it does not affect the extent of regulation. In the light of the above, it can be stated that there is no relationship between excess demand and the regulation of the acceptance of gifts and other benefits, therefore those institutions at which

there is significant excess demand for a specific service are not more likely to regulate more the order of acceptance of gifts and other benefits.

Our findings warn that in the case of certain groups of service providers, demand may permanently exceed supply (e.g. in the case of higher education and healthcare institutions). At the same time, barely a quarter of these groups of institutions (26–27%) have a policy regulating the conditions of the acceptance of gifts, invitations and travels. However, a high percentage of those groups of institutions (e.g. government bodies, jurisdiction, law enforcement and defence institutions) that do not or hardly ever face such type of risk have a gift policy (see: Figure 6).

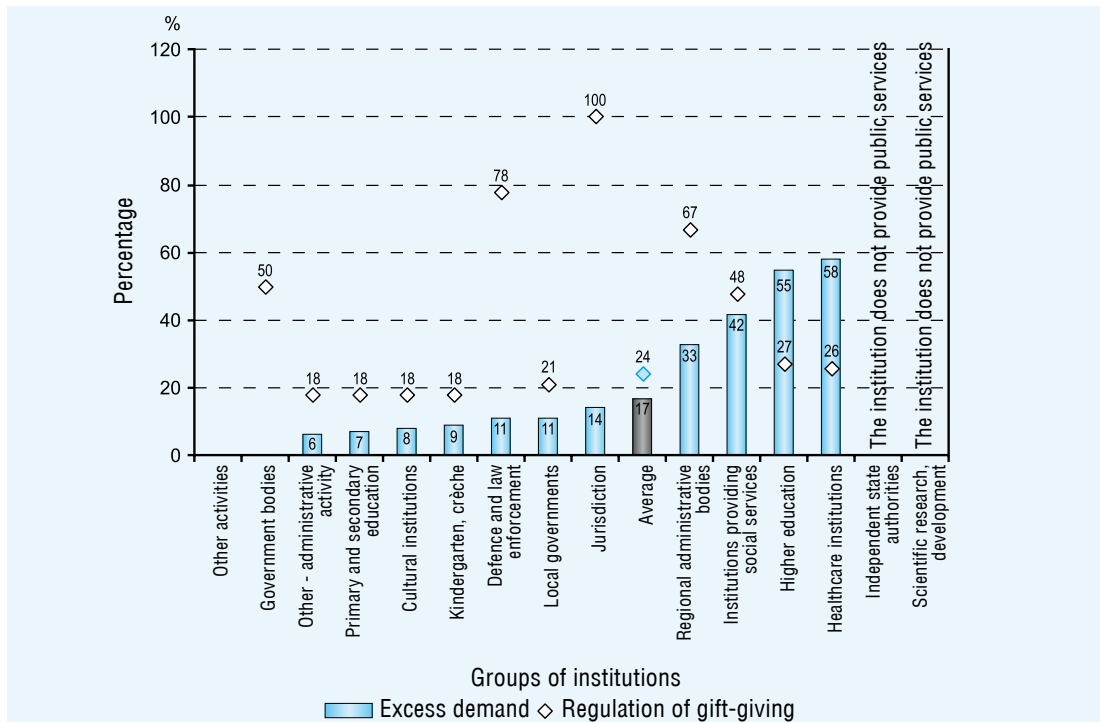
*Charges set by the organisation and systems for the disclosure of information of public interest (whistleblowing)*

More than three quarters of public service providers (77%) provide chargeable services. 44% of the organisations themselves set the service charge. In the case of services provided by public authorities, especially if the organisation itself sets the charge, it is important that in the course of the provision of the service, the people who are involved in a corruption attempt or are offered certain benefits or detect such a case can make a complaint or a report of public interest. The risk arising from setting the service charge can be set off if the organisation operates a system to manage external complaints (i.e. from outside the organisation). Based on our findings, only 36% of service providers operate this control.

By means of regression analysis, we established that a one-unit increase in the charges set by the organisations reduces the extent of establishing a complaint handling system by 0.246 units. The p value of the regression model is 0.361. Based on this, the charges set by the organisations do not represent a sig-

Figure 6

**REGULATION OF EXCESS DEMAND AND GIFT-GIVING IN CERTAIN INSTITUTION GROUPS**



nificant parameter, therefore this variable does not affect the extent of the complaint handling system.

When examining the individual groups of institutions, it can be observed that in the case of local governments, institutions carrying out other administrative activities and cultural institutions, the percentage of institutions operating the aforementioned control is the lowest, along with a higher than average risk value of the charges set by the organisations (see: Figure 7).

*The provision of public services and information on the terms of use*

In relation to public services, the fundamental needs of citizens include information on what type of public service they are entitled to and a transparent decision-making process. Transparency and predictability are the basic

pillars of the integrity approach, therefore we examined the relationship between the provision of the public service and the information provided on the terms of its use.

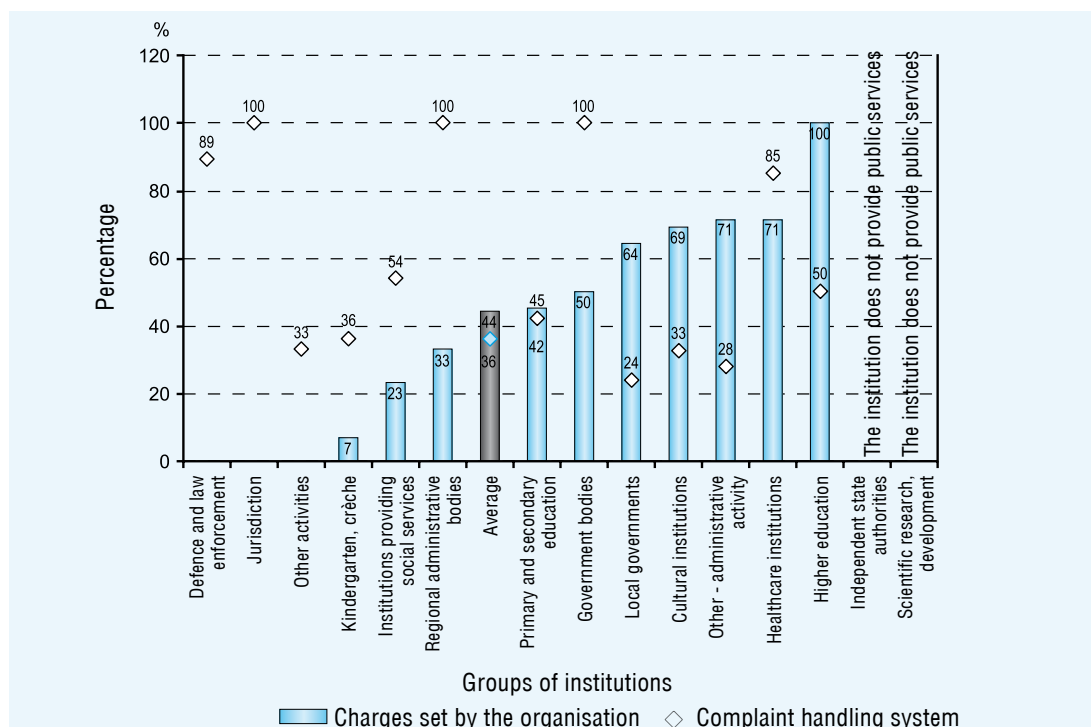
Based on the results of the survey, citizens are entitled to use domestic public services mainly on the basis of objective, pre-determined criteria. The majority of organisation groups provide extensive information to their clients on the terms of use of public services. Such terms include terms of entitlement specified by law, as well as pre-established criteria by the individual organisations. The availability of the criteria is of primary importance if the service is provided on the grounds of equity.

The high integrity level of domestic public services is indicated by the fact that based on the answers, citizens are almost fully informed on the terms of use of public services (see: Figure 8).



Figure 7

**THE RATE OF CHARGES SET BY ORGANISATIONS AND THE OPERATION OF THE EXTERNAL COMPLAINT HANDLING SYSTEM IN THE INDIVIDUAL GROUPS OF INSTITUTIONS**



**CONCLUSIONS**

The public services provided by the state greatly influence the physical and mental wellbeing of citizens (healthcare, public education, drinking water, heating). Citizens are strongly interested in maximising the use of such public services for themselves, even to the detriment of others or illegally (evasion of waiting lists, influencing the system of entrance exams). Such abusive distribution of public services leads to the unequal access to the services that should be available based on the principle of equality, which influences citizens' confidence in the state and its institutions to a great extent. In the light of the above, the integrity of public service providing institutions is crucial.

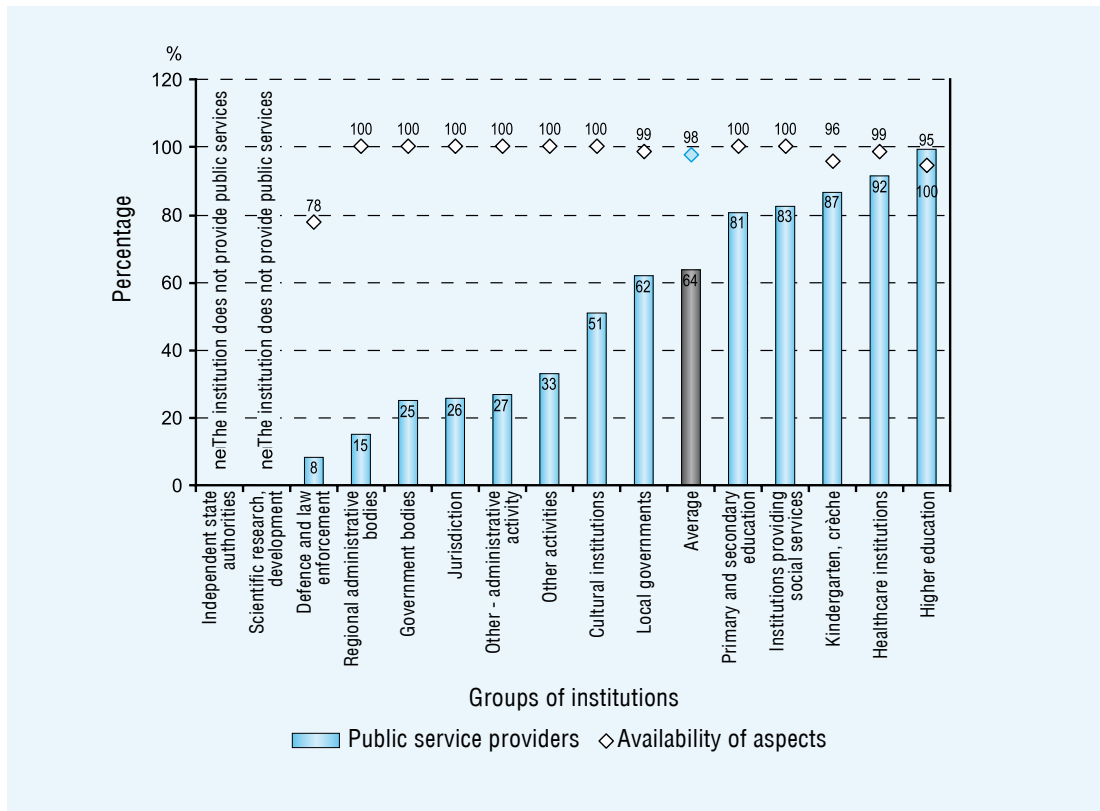
Based on our results, among typical public service providers, integrity risks and the establishment of controls change simultaneously.

The higher the risk level, the better-established the controls. Furthermore, the research also shone light on the fact that irrespective of the risk level, the integrity control level of other institution groups with other official or control functions (the police, national defence) and that of independent public bodies is high. It is definitely due to the fact that in the case of institutions providing human public services, there are less so-called hard controls, that is, compulsory control elements prescribed by law. Consequently, voluntarily established controls can better follow the identified integrity risks. This finding could be good news, but our research also revealed that in certain situations that significantly threaten integrity, the key controls that could mitigate the risk had not been established.

In the area of public services, the provision of chargeable services, the possibility of exercis-

Figure 8

**THE PROVISION OF PUBLIC SERVICES AND INFORMATION ON THE TERMS OF USE<sup>3</sup>**



ing equity and the excess demand for the services carry the most significant integrity risks.

As far as public service providers are concerned, the documentation of benefits in cash and in kind, as well as the regulation of conflict of interest and asset declaration are adequately established controls.

However, the lack of preparedness for handling public interest disclosures and complaints is clearly obvious. The operation of the internal and external reporting system is necessary so that the organisation can learn about and handle events that damage integrity, appropriately assess risks and establish the required controls. The fact that the citizens' complaints cannot properly and officially ap-

pear in the system may further weaken the confidence of citizens and strengthen the tendency of attempting to seek remedy for the disadvantages they suffer through shortcuts, evading the official procedures. However, whistleblowing systems can only fulfil their function if appropriate protection is provided for all those reporting the irregularity, as without this it may be too risky to report the integrity-breaching behaviour of a colleague.

The fact that the acceptance of gifts, invitations and travels is inadequately regulated at Hungarian public service providers carries significant corruption risks. The lack of regulation is an especially serious problem among the public service providers at which demand

is permanently higher than supply. The aforementioned phenomenon was measured at healthcare and higher education institutions. At the same time, it should be mentioned that in the area of higher education, excess demand mainly affects the entrance exams to universities and colleges. In this area, a new control, i.e., the automation of decision-making processes, which is one of the most effective factors promoting integrity, has been introduced. For almost one decade now, the ranking of the applicants to higher education institutions is being calculated by a computer based on the acquired points. The applicants are automatically notified by the computer system. As an employee in higher education (Erzsébet Németh), I also experienced that suddenly, after the introduction of the system, almost all the calls for laying on influence for somebody

– which used to be so frequent before – suddenly stopped.

It may cause serious tension and extraordinarily erode confidence in the service if people who use the service cannot see clearly why one patient has to wait longer than the other in the casualty department. Confidence has also a placebo effect in healthcare. Not to mention that it also improves the cooperation of patients. In other words, if patients trust the doctor and have confidence in the treatment, they can follow the doctor's instructions better and the effect will be better, as well.

Of course, it is not possible to serve patients with the help of a meter greeter everywhere, on a first-come first-served basis, but it would be possible and necessary to identify risks, establish rules, make them available and establish other controls.

#### NOTES

<sup>1</sup> The registration ID number issued by the Hungarian State Treasury.

<sup>2</sup> Interestingly, in certain groups (kindergartens, crèches, schools or social care institutions), only 80% of the institutions claimed to provide public services, however, it is obvious that the main activity of these institutions was the public service itself.

<sup>3</sup> Comment: as only those were allowed to answer the control question (the availability of aspects) who answered yes to the question about risk (the provision of public service), the diagram shows the yes answers to the question about the availability of aspects in proportion to the organisations which answered yes to the question on the provision of public service.

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#### LEGISLATION

The Fundamental Law of Hungary

Nvt. – Act CXCVI of 2011 on National Assets

Ebtv. – Act CXXXV of 2003 on Equal Treatment and Promotion of Equal Opportunities	Integrity Management System of Public Administration Bodies and the Order of Receiving Interest Advocates
Act CLXXXV of 2012 on Waste	
Act CCXI of 2015 on Chimney Sweeping Industrial Activity	Bkr. – Government Decree No. 370/2011 (XII. 31.) on the Internal Control System and on the Internal Audit of Central Budgetary Institutions
Government Decree No. 50/2013 (II. 25.) on the	Government Decree No. 50/2013 (II. 25.)

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