



STATE AUDIT  
OFFICE OF HUNGARY

## A method developed into a system

Presentation by Gyula Pulay,  
supervisory manager of the State Audit  
Office of Hungary

International Good Practices Seminar –  
Strengthening integrity of the public  
sector

Szarvas 24.02.2016.

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## A method developed into a system

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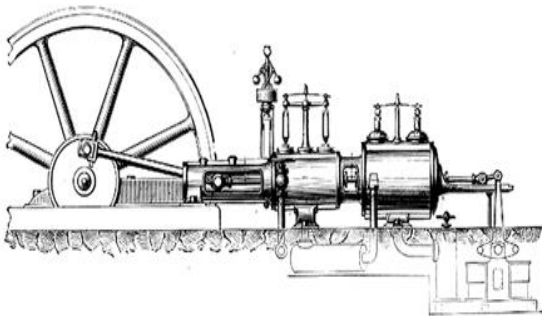
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## Method: steam-machine



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Steam-engine



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Steamship



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Steam combine harvester



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Steam moped



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Nuclear power station



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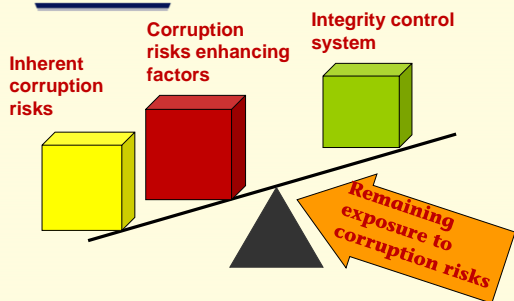
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The essence of the method



2016. február 24.

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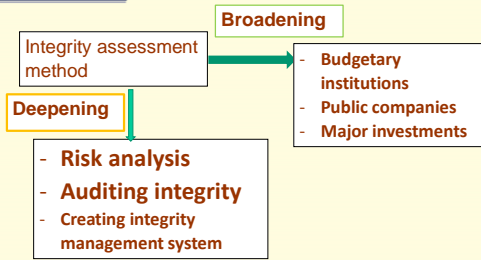
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## Extension of the integrity assessment method



**Final objective: creating the organisational culture of integrity in the public sector**

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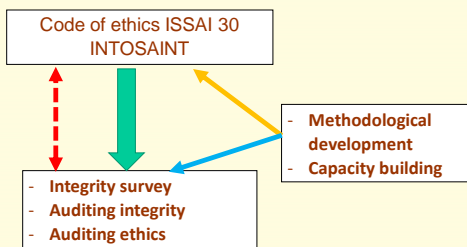
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## Integrity of the SAs as a precondition of auditing integrity



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Part 1. How are the results of integrity survey utilized in the work of the State Audit Office of Hungary

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## Goals of the Integrity Project

- 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

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## 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

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## Two ways for the utilisation of the integrity survey during the audit activities

- Risk analysis: SAO selects its audit topics and areas based heavily on risk analysis. The results of the integrity survey point out, which groups of institutions and scopes of activity show the highest corruption risks.
- Audit methodology: SAO incorporated groups of questions in its audit programs from the issues raised in the integrity survey.

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Utilisation of the results of the survey for risk analysis

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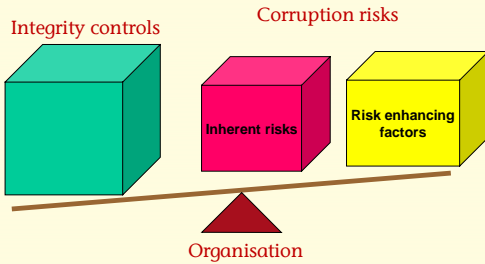
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### Integrity approach



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### 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.

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### Three kinds of information: gained for risk analysis

- Information on the risks (risk level, frequency of certain risks and risk enhancing factors)
- Information on the integrity controls (shortages, frequency of the usage of certain controls)
- Information on the gaps between the risk level and the integrity control level
  - Gap between the inherent risk level and the integrity control level
  - Gap between the inherent risk level and the integrity control level

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### Gaps between the risk level and the integrity control level

- We were seeking answers to the question: 'Is there a connection between an institution's exposure to corruption and the establishment of integrity controls?'
- We compared the index rates of the inherent vulnerability and the enhancing factors of certain groups of institutions to the index rates of controls in those groups of institutions.
- Based on the index rates of the institution groups, we have drawn a linear trend line to be used as the basis of comparison.
- The results are presented in the next two figures.

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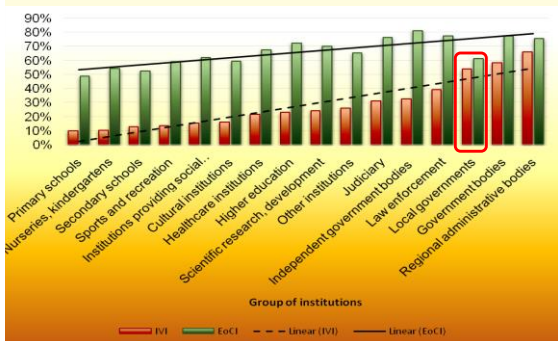
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### Relation between Inherent Vulnerability Index and Existence of Controls Index (%)




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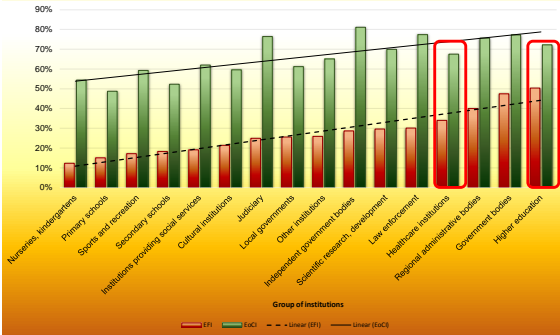
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## Relation between Enhanced Factors Index and Existence of Controls Index (%)




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## „Risky” groups of organisations

- Regional administrative bodies, government agencies, local governments: **the level of the Inherent Vulnerability Index is high.**
- Higher education, regional administrative bodies, government agencies: **the level of the Enhanced Factors Index is high.**
- Local governments: **the Existence of Controls Index is lower than it due to be according to the linear trend of the Inherent Vulnerability Index.**
- Higher education and healthcare institutions: **the Existence of Controls Index is lower than it due to be according to the linear trend of the Enhanced Factors Index.**

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Auditing integrity:  
present activities and  
future plans

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## Methodology for auditing integrity (present)

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### Integrity module within compliance audits

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- SAO has built in an integrity module into its compliance audits of the budgetary organisations.
  - 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.
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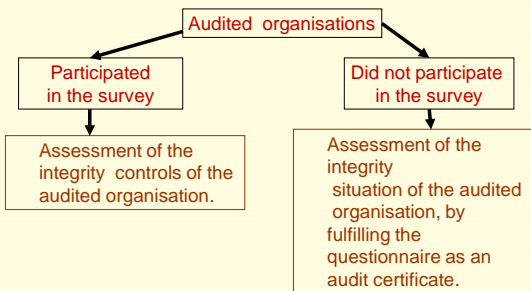
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### Two types of integrity audits



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## Methodology for auditing integrity

### 1. Assessment of the integrity situation of the audited organisation.

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## Inputs from the integrity survey

1. The questionnaire of the survey itself
2. The results from the survey as benchmarks

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## The questionnaire of the survey as an audit certificate

- 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.

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## Indices 2014

|                     | Inherent Vulnerability | Enhanced Factors | Existence of Controls |
|---------------------|------------------------|------------------|-----------------------|
| National average    | 34,3                   | 23,2             | 60,3                  |
| Health care average | <b>21,8</b>            | <b>33,9</b>      | <b>67,5</b>           |
| A given hospital    | 27,2                   | 34,7             | 61,1                  |

For the audited organisation the indices of the related group of organisation are used as benchmarks.

## Two steps of the assessment

1. classification of the individual indices of the audited organisation

2. classification of the integrity situation of the audited organisation

## Inherent Vulnerability Index

Average value  
in the health care sector  
**21,8 %**

- 16,8 %

16,8 % - 26,8 %

26,8 % -

low

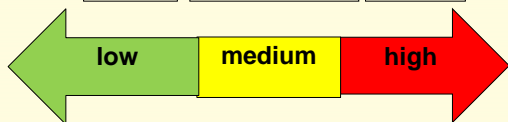
medium

high

### Enhanced Factors Index

Average value  
in the health sector  
**33,9 %**

- 28,9 %    28,9 % - 38,9 %    38,9 % -




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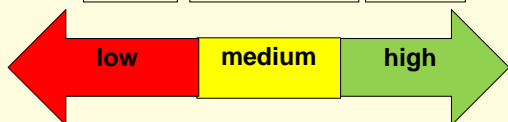
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### Existence of Controls Index

Average value  
in the health sector  
**60,3 %**

- 55,3 %    55,3 % - 65,3 %    65,3 % -




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### Indices 2014

|                     | Inherent Vulnerability | Enhanced Factors | Existence of Controls |
|---------------------|------------------------|------------------|-----------------------|
| National average    | 34,3                   | 23,2             | 60,3                  |
| Health care average | <b>21,8</b>            | <b>33,9</b>      | <b>67,5</b>           |
| A given hospital    | 27,2<br>high           | 34,7<br>medium   | 61,1<br>low           |

For the audited organisation the indices of the related group of organisation are used as benchmarks.

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## Assessment in the second step

- The assessment system uses a three-grade scale:
  - out standing,
  - appropriate,
  - to be improved.

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Table for the evaluation of the long certificate

|                              |        | Existence of Controls Index |                |             |
|------------------------------|--------|-----------------------------|----------------|-------------|
|                              |        | ranking                     | low            | medium      |
| 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 |

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Table for the evaluation of the long certificate

|                              |        | Existence of Controls Index |     |        |
|------------------------------|--------|-----------------------------|-----|--------|
|                              |        | ranking                     | low | medium |
| Inherent Vulnerability Index | low    |                             |     |        |
|                              | medium |                             |     |        |
|                              | high   | to be improved              |     |        |
| Enhanced Factors Index       | low    |                             |     |        |
|                              | medium | to be improved              |     |        |
|                              | high   |                             |     |        |

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## Methodology for auditing integrity

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

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### Input from the integrity survey

- Certain parts (36 questions) from the questionnaire of the survey
  - Soft controls
  - Special anti-corruption measures
- We call it short integrity certificate

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### The term of “soft control”

- 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’.

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### 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

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### Audit questions (examples)

- 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?

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### The audited groups of the integrity controls

- Five groups of controls which are important for the creation and maintenance of organisational integrity:
  - 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.

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## Two steps of the assessment

Evaluation of the control level in each of the question groups

Evaluation the overall integrity control level

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

- 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

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

- 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

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## Plans for the future

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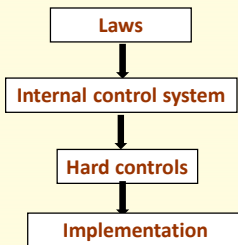
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## Rule based approach



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## Auditing regularity

- Compliance auditing generally comprises the assessment of compliance with formal criteria, such as authorizing legislation, regulations issued under framework legislation and other relevant laws, regulations and agreements, including budgetary laws.
- Fundamental Principles of Compliance Auditing ISSAI 400 point 32.

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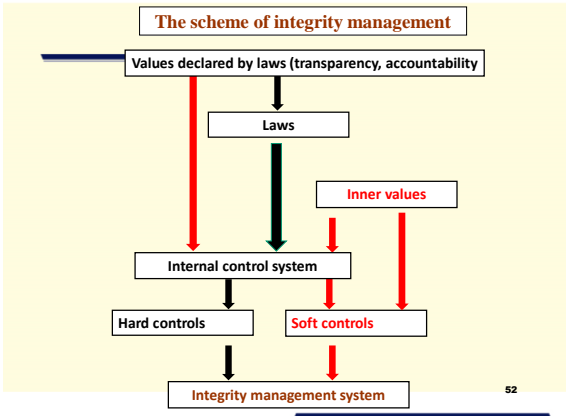
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### Auditing propriety

- Where formal criteria are absent or there are obvious shortcomings in the legislation concerning their application, **audits may also examine compliance with the general principles governing sound financial management and the conduct of public officials.**
- Suitable criteria for a compliance audit of propriety will be either **generally-accepted principles or national or international best practice. In some cases they may be uncodified, implicit or based on overriding principles of law.**
- Fundamental Principles of Compliance Auditing ISSAI 400 point 32.

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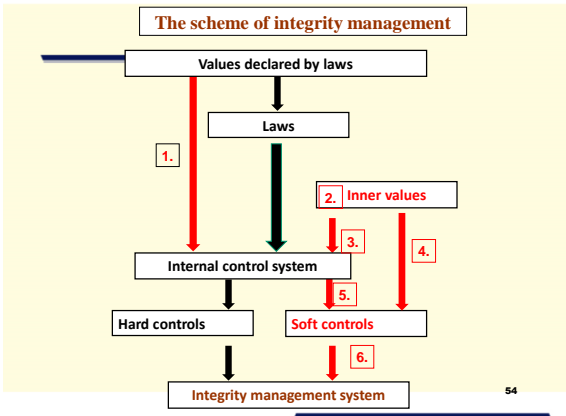
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### Questions for propriety audit

1. Are values declared by laws incorporated into the internal control system of the audited organisation?
2. Did the audited organisation declare its own values?
3. Are values declared by the audited organisation itself incorporated into the internal control system of the audited organisation?
4. Are values declared by the audited organisation itself materialized in form of soft controls?
5. Are soft controls widely used by the audited organisation?
6. Are soft controls parts of the integrity management system of the audited organisation?

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### Two parts of auditing integrity

1. Regulatory audit on the hard integrity controls
2. Propriety audit on the soft integrity controls

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Thank you for your kind attention!

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