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Integrity Risks and Controls at the Time of the Pandemic

Summary
The aim of the study is to examine the new challenges posed by the pandemic and the tools to manage them in the field of integrity. The spread of the novel coronavirus parallelly caused a surge in the demand in certain sectors, as well as a shortage of supply and the disruption of global supply chains. During the pandemic, healthcare workers had carried out their tasks under the pressure of an excess demand stronger than before, which increased the risk of corruption in the sector. Corruption schemes known beforehand have veered and the pattern of integrity risks have changed. Under the extraordinary circumstances, organisations might be obliged to choose between saving lives immediately and complying with the rules. The study points out that careful consideration is needed with regard to which rules can be neglected and which ones shall be maintained. Both positive economic incentives and sanctions have played a role in the management of integrity risks occurring in this field. The salary increase of medical doctors and sanctions related to offering and taking informal payments are important steps in the direction of strengthening integrity that clearly demonstrate the need for combined actions.

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INTRODUCTION

The pandemic has fundamentally shaken the structures of the world economy, causing a sudden surge in demand in some sectors, a decline in supply, and the disruption of global supply chains. In the case of protective equipment, this has led to demand-type markets where the sellers dictate (‘sellers’ market’).

The Fundamental Law of Hungary stipulates that ‘every organisation managing public funds shall publicly account for the management of those funds. Public funds and national assets shall be managed according to the principles of transparency and of a corruption-free public life’. In order to ensure a corruption-free public life, the importance of prevention and securing integrity are to be highlighted. The establishment and consolidation of a culture of integrity at public sector institutions plays an important role in the activities of the State Audit Office of Hungary (SAO), as no organization can be successful in the utilisation of public funds without learning and applying the aspects of integrity.

Below, the study examines new challenges and risks posed by the pandemic in the field of integrity; as well as some possible ways of dealing with them, with special regard to the SAO’s operating environment and audit methodology.

BASIC CONCEPTS: CORRUPTION, INTEGRITY AND INTEGRITY RISKS

It shall be pointed out that an unfavourable competitive market situation cannot in itself be regarded as corruption. Yet, it is at least of the same importance, what can be regarded as corruption and as criminal offences which are prosecuted under criminal law.

According to the definition of the National Anti-Corruption Strategy (NKS, 2020), corruption is the abuse of power conferred in return for private or group advantage either offered or provided. This is in line with the definition of the European Union (European Commission, 2014), stating that ‘corruption is the abuse of public office for private (economic) gain’; with the definition adopted by international organizations (OECD, 2016; World Bank, 1997), claiming that it is ‘abuse of power conferred on someone for personal gain’; and with the Criminal Code.

In addition to the facts of corruption under Act C of 2012 on the Criminal Code, this realm also includes acts such as abuse of office, fraud, embezzlement, and misappropriation, which may also involve corrupt behaviour. Criminal law is based on the principle of personal responsibility thus, a procedure, a sector, a type of transaction or an economic situation in the market cannot be corrupt.

On the other hand, according to the approach that the SAO has successfully implemented in the Hungarian public sector since 2011, integrity means operating in accordance with the values and objectives of an organization. The higher the level of integrity of an organization is, the more resilient it is to corruption threats, i.e. strengthening integrity, especially at the level of individual organizations, is an important means of reducing corruption risks. At the same time, integrity is a broader concept, besides following the goals of the organization, it also means being free from corruption and from other misconduct alike, such as fraud, or arbitrariness (Pulay, 2014). In other words, integrity is a quality that builds trust.
Risk is the probability of an event occurring, so the risk of corruption or an integrity risk is the probability of the occurrence of an act of corruption or breach of integrity. Integrity risks arise, for example, in public-private business transactions; in the realm of decisions made and freedom of discretion used by civil servants; and in case if demand for some public service is greater than the resources available to meet it. Integrity risk does not, by definition, equate with a breach of integrity itself or the occurrence of corruption. Integrity risks can be addressed by elaborating appropriate controls (Pulay, 2014; Báger, 2011). Integrity controls may include actions, such as regulating conflicts of interest, developing ethical principles related to integrity, employing an integrity consultant, etc. Any risk remaining after a measure is taken to tackle the risk is called residual risk.

**Integrity Challenges Posed by the Pandemic**

Corruption, and thus integrity, cannot be interpreted in isolation from the economic-, market- and legal environment and incentives. In order to understand changes in the integrity situation due to the pandemic, it is therefore necessary first to examine the economic environment in which public institutions were performing their tasks.

*Market Disequilibrium*

The COVID-19 pandemic triggered an explosion-like increase in the use of medical devices, medicines and other basic hygiene products required for protection and for medical treatments, a process soon leading to an extremely demand-driven market for a number of products. Following the outbreak of the pandemic, especially during its phase requiring immediate responses, supply was unable to keep up with exponentially growing demand. Collapsing supply chains and export restrictions contributed to the imbalance between supply and demand (see OECD, 2020a). In addition, fears of a collapse in supply systems led to unrealistic demand factors (panic buying) in the markets for food, toiletries and even medical devices available to the general public, which also exacerbated stock shortages (Laato et al., 2020).

Thus, the pandemic transformed the market enormously, with shortages being reproduced and, in some cases, becoming permanent, putting buyers at great disadvantage compared to sellers. This is not an unprecedented phenomenon: If we look for historical analogies, it becomes immediately apparent that the ‘sellers’ market’ is in many ways akin to the deficit economy experienced within the framework of state socialism. Kornai describes the notion of a shortage economy, one of the immanent features of socialist systems, that is, the sellers’ market, as a market where sellers can choose from among buyers and buyers make efforts in order that sellers take decisions favourable to them (Kornai, 2010). The demand-driven market also increased the risk of fraud and unfair market practices, and in many cases the quality of goods fell below requirements, with prices going up.
Information Vacuum

The OECD states in its paper on initial responses to the pandemic (OECD, 2020a) that economic decisions were made in a particularly rapidly changing market and information environment when the pandemic broke out. No reliable information was available on the professional requirements for healthcare products, their effectiveness, the tools and methods used to provide effective protection against the pandemic, and whether they have the appropriate quality or professional certifications. In many cases, there was a lack of information on market realities and pricing, as well as a lack of expertise for conducting global procurements. The UN Office on Drugs and Crime (UNODC) draws attention to the fact that, during the state of emergency due to the pandemic, public actors also had to deal with extreme price volatility in the market for healthcare products, thus those placing orders did not have the opportunity to determine fair market prices or judge cases of profiteering and overpricing (UNODC, 2020).

Urgency

In the fight against the virus, in order to protect human lives, immediate needs had to be met with unprecedented urgency. The practice of carrying out procurements with urgency is not unprecedented in the public sector, but the fact that needs had to be met immediately placed a significant burden on the financial management and legal infrastructure of public institutions.

Derogation from Ordinary Rules

Each legal system includes empowering provisions allowing derogation from certain rules to deal with exceptional situations. The necessity of export bans during the pandemic is indisputable, but at the same time it conflicts with international rules of free trade. Several authors point out that a deregulation of financial management and procurement was carried out in a revolutionary manner in the healthcare situation caused by COVID-19 (Folliot, 2020; Gallego et al., 2020; Sanchez-Graells, 2020), as public procurement rules seemed to be unable to fulfil their basic purpose, namely, to make it possible for public bodies to procure goods and services needed to save lives in a timely manner. As suppliers dictated terms and conditions, some contracts did not even include performance obligations to protect buyers. However, special contractual clauses were introduced (e.g., requiring an advance payment), with around half of the OECD countries applying them (OECD, 2020b).

Overregulation, Bureaucracy

The opposite to deregulation is when there are bureaucratic obstacles, a so-called red tape, to decision-making. It received attention in connection with public vaccination programmes that doctors applying to become volunteer vaccinators in the UK had to attach 21 different
documents to their application, including proof of participation in trainings in fire protection, conflict management, and prevention of radicalisation (Hill, 2021). In addition to causing excessive bureaucracy and unjustified slowdown in processes, overregulation may lead to unclear responsibilities, may reduce transparency and the predictability of decisions, and may therefore increase the risk of anomalies and corruption. Complying with too many rules is also costly, and costs can be measured in human lives during a pandemic.

**Ethical dilemmas, Conflicts of Interest**

Due to the scarcity of resources in connection with the pandemic, new types of ethical challenges emerged in the health sector, such as conflicts of interest in the course of prioritising healthcare services and distributing available resources. There might have been cases where a member of the medical staff had to make decisions about treatments, available equipment, or vaccines for their own relatives or colleagues. At the same time, no such ethical norms or regulations were fully available based on which responsible decisions could have been made, while ethical considerations could be in conflict with inventory management priorities. Complex decisions had to be made with a high degree of uncertainty, and, in the course of decision-making processes, it was not always possible to exactly follow which interest groups’ influence prevailed.

**Risks Related to Competition Law**

The pandemic meant significant restrictions and temporary or even permanent loss of turnover for many businesses, while many companies decided to work together even with their business rivals in order to meet demands (Jones, 2020). Collusion between parties (price-raising through cartels; horizontal collusion) is an unfair practice sanctioned by competition law, in which several forms of corruption may arise. Cooperation between competing companies and the exchange of confidential information required for this purpose are, in principle, practices that seriously infringe competition, but the pandemic situation changed the perception of this aspect as well. In the EU practice, objectively necessary, temporary and proportionate cases of restricting competition became permissible, and it constituted no infringement of competition law, either, if a Member State imposed the obligation on parties to co-operate (European Commission, 2020).

**Integrity Challenges in the Health Sector**

Healthcare became the most important sector during the pandemic, the integrity of which had already been in the focus beforehand. The health sector is inherently complex and challenging in terms of corruption risks: many actors are involved (hospitals, clinics, pharmacies, pharmaceutical companies, and educational institutions), and it encompasses a wide range of processes from hospital treatments to organ transplantation or drug authorization (Hoppe, 2018). The sector is one of those most exposed to the risk of corruption, both in Europe and in Hungary (European
Commission, 2017; Németh et al., 2020). In the case of public healthcare services, the greatest risk is excess demand: available resources allow fewer services to be provided than required, and citizens have strong incentives to receive these services under the best possible conditions.

All this was exacerbated by the pandemic: there was a dramatic increase in the number of people suffering from the same illness and competing for the same healthcare services, while limited medical technology and nursing capacity was available, thus creating even higher excess demand, leading to decisions on the part of many to use unfair means to influence healthcare procedures.

There was also a change in the ethical framework governing medical staff: instead of ethical norms focusing on individual patients, public health aspects were given priority, often leading, for instance, to the postponement of deferrable surgeries. All this created a new situation for the medical staff as well: earlier there had been no need to make such far-reaching decisions in the course of their daily work and in many cases they were not prepared to deal with such ethical dilemmas (Angelos, 2020).

**CHANGE IN THE DIRECTION OF CORRUPTION RISKS**

Upon examining corruption risks in the light of market dynamics, it becomes clear that their driving force and direction changed. When a market functions under normal circumstances, private actors may have an interest in trying to influence decisions of public authorities and public institutions by unfair means. This 'classic' transaction type related to corruption involves corruption money or benefit flows from private actors to public institutions, while the 'corruption goods' are decisions or acts of institutions or persons holding a public office.

However, in the initial period of the pandemic, private actors distributing healthcare products being in short supply were in a very favourable market position, which led in several areas to the elimination of interests underlying the classical pattern of corruption. The sellers had the power to select from among the buyers; so the buyers had to make efforts to win over the sellers. Thus, in order to gain access to certain goods, buyers became interested in influencing the sellers, and not the other way around. This type of risk could even spread over the entire supply chain, as products for which demand was the highest, typically changed hands more than once (OECD, 2020a).

**HOW TO ENSURE INTEGRITY DURING A PANDEMIC?**

Below, dilemmas arising in the context of integrity and pandemic management will be outlined. Then we will examine the kinds of tools available to serve as guidance to ensure integrity and to avoid fraud even during a state of emergency.

*Dilemmas of Integrity and Compliance*

It goes without saying that saving lives during a pandemic is the number one priority of any society with a sound set of values. However, this goal can sometimes conflict with some rules of financial management, integrity, or compliance.
Integrity protection methods developed earlier were not prepared for the new situation evolving through the pandemic. Certain norms and rules had to be overridden and extraordinary rules had to be created in order to protect human lives and to intervene quickly. It is an acceptable argument that a new situation cannot be judged on the basis of old rules, however, chaos, the lack of norms, or anarchy cannot be justified, either, and a state of emergency cannot automatically mean exemption from compliance with rules. While the importance of integrity is evident, no society can place it above all other considerations. It is therefore a serious dilemma how to set a reasonable limit so as not to endanger or delay the saving of human lives and, at the same time, to ensure that rules from which derogation is not justified are complied with even in this situation.

It should also be borne in mind that there are basic rules of financial management and integrity that must be followed, exactly because they represent basic conditions for efficient and effective healthcare services and help combat the pandemic.

**Means of Maintaining Integrity**

After outlining the challenges and dilemmas affecting integrity we look at the possible means of reducing risks.

**Defining Key Controls of Integrity**

The emergency situation made it clear that compliance with rules must be revised, with the principle of a flexible retreat in mind. It may be necessary to derogate from certain norms, but only to the extent, and for the time actually justified and necessary. Placed in the context of the operation of the SAO, we will describe how it is possible to define so-called *key controls* that are necessary and sufficient.

It means identifying integrity controls that provide meaningful and effective support to the integrity of an organization, addressing integrity issues that arise during the pandemic, and that are not a waste of resources on the part of either the auditees or the SAO.

Following this mindset, the SAO streamlined its integrity audit methodology in the first year of the pandemic. The new approach in audits of integrity was first used in the municipal sector. While in 2019 the SAO audited the integrity and internal control systems of local governments by requesting 68 different documents to be submitted, in 2020, the number of key documents required for monitoring-type audits conducted at 3197 municipalities and 1284 municipal offices decreased to 26. Of the 26 documents, the SAO audited an even smaller group of nine documents in the first phase of these audits, providing audited organizations with the opportunity to correct any identified shortcomings in advance and to develop their integrity environments.

Thus, there was a shift towards novel, real-time audits, whereby the SAO’s advisory and audit functions were exercised concurrently, while ensuring full coverage of the given group of auditees and placing the emphasis on improving their integrity environments rather than finding errors.
The table below provides a list of key documents examined as part of audits at local governments and their offices, describing their significance:

| Key document | What is the significance of the key document for integrity?
<table>
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<tr>
<td>Accounting policy</td>
<td>If an organization does not have an accounting policy, its accounting procedures, records and the content of its accounting reports cannot be interpreted, so the basic conditions of integrity do not apply in its utilisation of public funds.</td>
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<tr>
<td>Regulations for preparing an inventory, taking the inventory and the regulations for the valuation of assets and liabilities</td>
<td>Inventories show the actual state of assets and liabilities featured in statements. Inventories make it possible to hold those financially responsible for assets accountable, thus inventories will support the protection of assets held by budgetary organisations. In the absence of regulations for preparing an inventory, it is not possible to verify the method used by the organization for taking inventory, nor can responsibilities be identified, which poses a risk to integrity. The purpose of the regulations for the valuation of assets and liabilities is to summarize accounting valuation methods. A lack of such rules will hinder the implementation of accounting policy decisions.</td>
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<tr>
<td>System of accounts</td>
<td>The system of accounts shows how accounts are supported by documents, thus supporting the integrity of the utilisation of public funds. In the absence of a system of accounts, it is not possible to ascertain whether the organization’s books for the year in question were properly opened and maintained, and whether requirements were observed relevant to preparing statements that can truly reflect the organisation’s financial position.</td>
</tr>
<tr>
<td>Policy for handling integrity violations</td>
<td>This policy sets out what to do upon an event representing any deviation from organizational rules, objectives, or values. This policy is a key document for ensuring that such incidents are detected, liability for them is established, and all necessary measures are taken.</td>
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<tr>
<td>Rules relating to assets declarations</td>
<td>Any persons having the right to make proposals for, take decisions on, or control the utilisation of public funds must make a declaration about their income and financial situation and also that of their relatives sharing the same household. This makes it possible to detect any illegal enrichment, which may also be an indicator of corruption. If an organization fails to develop related regulations, it will be unclear who and how should make assets declarations.</td>
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<td>Key document</td>
<td>What is the significance of the key document for integrity?</td>
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<td>Organisational and operational rules</td>
<td>Organisational and operational rules will make it possible to get familiar with the purpose, activities, organizational structure, and contact details of an organization. Such rules are important in terms of serving as the basis for the regular and transparent operation of the organization, making responsibilities within the organization also transparent to external actors. If roles and responsibilities are not defined, integrity risks will also increase significantly.</td>
</tr>
<tr>
<td>Procedures for conducting procurement</td>
<td>Procedures for conducting procurements must be developed in a way to ensure that procurement processes are transparent and competencies are clearly stated. In the absence of such procedures, transparency will not be achieved for procurements of a value below the public procurement threshold, posing a risk to ensuring a level playing field in competition.</td>
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<tr>
<td>Procedures for whistleblowing and handling complaints</td>
<td>Complaints and whistleblowing represent one of the most important channels for revealing corruption abuses. On the basis of a notification, if it proves to have sufficient grounds, action must be taken to restore a situation where legality is ensured or public interest can be met. In the absence of such procedures, the necessary measures cannot be taken, the causes of revealed errors cannot be eliminated, and no liability procedure can be initiated.</td>
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<tr>
<td>Guidelines on gifts and hospitality</td>
<td>Every day, there is contact between citizens and clerks at authorities. The operation of these bodies is accompanied by the risk of the emergence of conduct to influence the speed of administration or the outcome of decisions. In the absence of regulations on accepting gifts, office staff will not be clear about what to do if a gift or other benefit is offered to them and what procedures should be followed in the event of a breach of rules.</td>
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Source: Own edited

SAO’s audit considerations have been developed by focusing primarily on the regularity of financial management practices at public institutions and the existence of an integrity environment to avoid fraud; auditing key accounting documents will strengthen the integrity of the utilisation of public funds.

**Cutting Red Tapes and a Digital State**

Kornai (1983) describes bureaucracy as a web stretched into the flow of social micro-processes, which, if too rare, allows for irregularities, but the development of increasingly detailed rules may lead to the overgrowth of bureaucracy and paralyse social life.

Cutting red tapes that is reducing unnecessary bureaucracy, contributes to a rational and efficient operation of the state and a reduction in social burdens. The pandemic has given new
impetus to the increasing trend of replacing ways of administration requiring personal presence by e-government solutions. An analysis by the SAO (Vargha et al., 2021) pointed out that, since February 2020, there has been a significant increase in the number of announcements and cases administered in the Personalized Administration Interface, and a number of new tools related to the digital state have appeared or become more widespread. The SAO’s Integrity Survey (Németh et al., 2020) also highlighted that digitalisation and automation play an important role in strengthening integrity. Digitalisation will help decreasing individual decisions and rights to discretion, while ensuring immutability, authentic documentation, and transparency.

Next steps in promoting digitalisation may be to review powers in public finances and to simplify the current form of regulations on financial counter-signatures, which the SAO had already proposed in the report on its professional activities in 2017 (SAO, 2018). Currently, legislation relating to public finances requires five signatures (those of the persons making commitment, providing financial countersignature, issuing a performance certificate, providing validation, and that of the authorising officer) for payments from the budget. However, this system requires significant administration, which also poses a risk of errors. SAO’s audit experience has confirmed that the identification of persons entitled to make commitment and to certify performance as well as their duties and powers are of key importance in the processes for approving payment. Reducing the number of signatures, and thus bureaucracy, may help increasingly enforce responsibility for the performance of substantive financial management tasks, and strengthen integrity in financial management.

**Discipline in Financial Management**

The demand-driven market generated by the emergency situation necessitated stronger state intervention and direct control over scarce resources. In addition to the historical precedent of shortage economy, it is therefore worth examining the analogy of military resource management as well. Military resource management is a kind of management and a set of instruments which are typical of a state of war and in which most of the elements of production are subordinated to war or the needs of the army. Its features include the pursuit of self-sufficiency, the introduction of protective tariffs and export restrictions, and also strict inventory management. The government becomes the main supplier and customer, bringing transport and strategic sectors under close control.

Similar considerations emerged and got reactivated in the pandemic management practices of countries around the world: for example, strict and responsible management of healthcare stocks. A number of equipment and materials are delivered and used at a healthcare facility on a daily basis; and serving patients, doctors and healthcare staff is of key importance to the effectiveness of healthcare services.

In order to preserve the good condition of stocks of medical supplies, measures were taken in Hungary, such as the appointment of hospital commanders, who were granted a right to issue instructions to ensure compliance with rules related to the pandemic and to protect medical supplies. The validation and control of inventory management data is also of key importance in addressing corruption risks: it can help reduce opportunities for misusing top-selling healthcare products and related integrity risks.
DEVELOPMENT OF HUMAN INFRASTRUCTURE IN HEALTHCARE

An important area of intervention to strengthen integrity and to avoid fraud is the application of appropriate regulations, a system of sanctions and controls with preventative effects. Another defence approach, that is at least as important, is based on incentives that cause a decline in value of options for corruption. Both approaches could be identified in solutions introduced for the development of human infrastructure in healthcare in Hungary during the pandemic.

As early as in 2017, a report based on a survey by the European Commission (European Commission, 2017) pointed out that raising wages is an important means to preventing corruption in the realm of access to healthcare services. In Hungary, Act C of 2020 on Healthcare Service Relationship re-regulated the salary scale of those in service relationship, increasing incomes progressively related to length of service. Raising salaries of medical doctors can clearly be considered as a factor reducing the 'purchasing power' of gratuities, corruption and bribery, which reduces the attractiveness of this type of 'pay supplement' for healthcare professionals.

The legislation contains important amendments in relation to Act CLIV of 1997 on Healthcare and the Criminal Code, too, which, after their entry into force on 1 January 2021, severely sanction all forms of corruption in healthcare.

CONCLUSIONS

In the wake of the COVID-19 pandemic, market dynamics fundamentally changed, a fact clearly leading to a demand-driven market for protective equipment. In the new situation, parties may act legally in the course of their transactions, while their market positions are unequal. At the same time, the demand-driven market clearly increases the potential for fraud and unfair market practices. All this had an impact on economic processes representing the driving force for corruption; interest relations forming the basis for corruption patterns and the directions of corruption changed and reversed, respectively. As integrity management systems of public institutions had been established primarily to address traditional integrity risks, it is an important task to raise awareness of the new types of risks.

The transformation of market conditions in the wake of the pandemic is an unusual but not unprecedented phenomenon. In many ways, the ‘sellers’ market’ has consequences similar to the ones of the shortage economy experienced under state socialism; and state control over resources takes place under conditions similar to those of military resource management. These prior examples in economic history can help us interpret risks and make plans for protection.

It is difficult to argue that a new situation cannot be judged on the basis of old rules, but it is important to be aware that no emergency situation can automatically justify a lack of norms or non-compliance therewith. Careful consideration is therefore needed as to which rules need to be revised in the fight against the pandemic.

SAO’s approach to designate key controls may, also in other areas, contribute to saving resources, to the success of defence, and to creating an appropriate integrity environment. Reducing bureaucracy is also an important option for intervention: cutting back on unne-
cessary regulations will protect public funds, strengthen fast responsiveness, transparency, and predictability; thus decreasing the potential for corruption. Integrity and controlling the pandemic are therefore not always competing interests, and they often have a mutually reinforcing effect.

Increasing the medical doctors’ salaries and sanctioning gratuities are steps to enhance integrity in healthcare and they point to the need that appropriate positive economic incentives and sanctions at the same time are both required to reduce risks of corruption. Managers of healthcare institutions also have an important role in ensuring the well-being and motivation of employees. As part of this, the development of rules of ethics for new integrity dilemmas due to the pandemic, such as vaccination and conflicts of interest, may play a key role.

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