

## Press Conference on Our Annual Report

**Budapest, 29 June 2023 - The Integrity Authority presented its first Annual Analytical Integrity Report at a press conference, marking a significant milestone in the EU conditionality procedure against Hungary. The organization, which has been in operation for seven months and currently has a staff of 70, offers assistance and partnership to Hungarian institutions involved in public procurement and EU funding through its integrity report.**

"The Integrity Authority was established to protect European Union taxpayers' funds in Hungary and ensure their purposeful allocation. Our goal is also to create an economic culture where relevant actors can and will stand up against corruption challenges. The role of the Authority is preventative; it safeguards society and the economy, as well as assists Hungarian and foreign businesses," emphasized Biró Ferenc, President of the Integrity Authority at the press briefing.

The president added, "There are many who have doubts about our autonomy, but the legal provisions are clear: the Integrity Authority reports its activities to the Hungarian Parliament and the European Commission. We are not dependent on the government or any other state entity. Anyone who doubts this can question the integrity of either the Parliament or the European Commission or both."

The Authority currently operates with a staff of 70, but seven months ago, at its founding, it consisted of only the president and two vice presidents. Building the full organization may take years, and it is expected to reach the planned 120-150 staff size next year. (For comparison, the State Audit Office has 500 staff, and the Public Procurement Authority works with around 150 employees.) All of this incurs costs, and Biró Ferenc expressed, "Law enforcement is expensive," but he believes, "We should not just look at how much this all costs, but also at how much money we save for taxpayers. I am confident that the balance will be strongly positive."

The Integrity Authority is currently investigating more than 30 cases, some of which have already been closed and will be made public soon. In 2024, the president hopes to complete a world-class digital development using artificial intelligence as an automated risk monitoring system.

"I never complain, and I don't ask for patience. We are progressing according to plan and doing our job," said Biró Ferenc.

### **ANNUAL ANALYTICAL INTEGRITY REPORT 2022**

The Annual Analytical Integrity Report is required to be prepared by June 30 each year by the 2022 Act XXVII. (Eufetv.) that established the Authority. According to the Act, the Integrity Authority's Annual Analytical Integrity Report examines the development of the public procurement scene in connection with the use of EU funds, the effectiveness of the regulatory environment, the practice of framework agreements, and assesses the control system, conflict of interest, and asset declarations.

The preparation of the report by the June 30, 2023 deadline, much like the operation of the Authority, is a milestone in the EU conditionality process. The over 200-page document was prepared according to the Authority's research and methodology and contains nearly 50 proposals. "The implementation of the proposals listed in the Authority's first Integrity Report is expected to contribute to a change in mentality, more careful and efficient use of public funds, laying the groundwork for a cultural shift in the economy and the nation's prosperity," said Biró Ferenc.

The most important lesson learned from the work is that it is necessary to introduce an ownership mindset (and the associated responsibility) and, where relevant, a risk-based approach throughout the institutional system. The control system must be equipped with appropriate human and IT tools, knowledge, and methodology to make control work more effective. "The state should be a good shepherd," the President of the Integrity Authority said in this regard.

The Integrity Authority offers assistance and partnership to institutions involved in public procurement and EU funding through its integrity report.

The data received from the Hungarian institutional system for the integrity report is fragmented, partly incomplete, and often unchecked, and the speed and capacity of data provision varies. In summary, they do not constitute a unified, structured database; therefore, the Authority will conduct further system-wide and ad hoc investigations in several areas in the next 6-12 months.

The following are the most important recommendations from the report's chapters.

### **Control System for European Union Funds**

Despite a well-regulated legal environment, it is not possible to determine whether the inspections conducted are sufficiently effective and whether they correspond to the formulated inspection objectives and related tasks. Internal regulations rarely, if ever, specify individual responsible parties for inspections.

The Integrity Authority particularly recommends that inspections prioritize the principle of "substance over form," as real financial risks can only be adequately assessed based on an understanding and evaluating the actual content of transactions. The current control system primarily focuses on formal compliance with legal requirements, so the Authority also offers methodological assistance to organizations for substantive inspections and risk-based approaches.

The number of irregular procedures could be much higher than the number of support contracts, indicating shortcomings in the functionality of the control system.

The Authority sees a vivid example in the fact that institutions often inform the subject of the inspection in advance, depending on the purpose and scope of the individual inspections, which may give too much time and opportunity for

preparation or even the removal of evidence. The report suggests rethinking the method of announced on-site inspections and a higher proportion of surprise extraordinary inspections.

The European Union Funds Audit Directorate General (EUTAF) regularly draws attention to high, systemic risks in the institutional system that are not being addressed appropriately and/or on time. Some findings have appeared in every annual system audit by EUTAF for 2-3 years. This suggests that there has been no substantial progress in this area.

The adoption of a risk analysis approach and methods, as well as the introduction of cross-program inspections, are recommended for the inspection system.

### **Public Procurements, Framework Agreements**

Centralized procurements have the characteristic that they are of high value, which restricts the range of bidders participating in procedures. Framework agreements, typically depending on the decision of the central procurement agency, significantly narrow the public procurement market for 2-4 years. Therefore, the Integrity Authority considers it necessary to investigate further the distorting and competition-reducing effects of framework agreements in the market, in agreement with the Anti-Corruption Working Group.

The Authority primarily proposes that the data of public procurements based on framework agreements be made publicly available.

Additionally, the report suggests various proposals to extend competition in public procurements, including a revision of regulations.

Proposals to increase trust and efficiency in public procurements:

- Supplementing the regulation regarding prior market consultation to reduce the use of single-bid procedures,

- Eliminating the waiting time between the expiration of the bid submission deadline and the opening, which currently lasts for two hours,
- Expanding the possibilities of partial bids by supplementing the legal regulation,
- Disclosure of the results of reports related to violations of competition purity by the Hungarian Competition Authority,
- Modifying the rules for evaluating bids for less time-consuming procedures,
- Increasing the harmony of the administrative and judicial public procurement remedies.

### **Conflict of Interest**

Instead of concealing situations of conflict of interest, it is necessary to create an appropriate control environment, as stated in the integrity report. According to the Authority's opinion and based on real market examples, this is achievable.

The regulations on conflict of interest, both at the EU and national levels, are fundamentally identical and follow EU norms, which provide a proper basis for strengthening trust in public procurements. At the same time, the laws and guidelines are very complex, so support for law enforcement, issuing practical guides, and declaration templates, and organizing workshops are necessary

It is essential that an electronic system for the uniform registration and control of these, along with asset declarations, be developed within the public procurement market, on which the Authority will make a separate recommendation.