

THE GREEK FINANCIAL CRISIS FROM AN AUDITOR'S POINT OF VIEW



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Three claims



- Three claims explaining the root causes of the Greek crisis:
 - The lack of an effective internal control system
 - The absence of a culture of performance
 - The inadequate powers for auditing mechanisms

I – Lack of an effective internal control system



- Confusing control and audit
- The need for an effective internal control system
- The example of the Greek deficit figures for 2009
 - From 3.7% in April 2009, to 12.5% in October 2009, 13.6% in April 2010 and finally 15.4% in November 2010
- The systemic deficiencies highlighted by the European Commission:
 - 1 billion € of ignored hospital liabilities
 - 710 million € neglected transfer of a state-owned company
 - Unclear accounting treatment for this privatisation
 - Calls of a guarantee not recorded, under assumption that the guarantee would be repaid
 - Capital injections considered as financial transactions with no impact on deficit

II – Absence of a culture of effectiveness



- Until recently, Financial Regulation not mentioning economy, efficiency and effectiveness.
- Main criteria were the legality of operations and the consumption of appropriations
- The example of the Accounting Reform in Greek public Hospitals
 - Introduction of accruals-based accounting started in 1997
 - A pilot in 1999, a Decree in 2003 setting deadlines (01/01/2004 for accruals-based and 01/01/2005 for cost accounting)
 - Researchers found that in 2009 the implementation remained incomplete. Reasons:
 - ✦ Limited political interest
 - ✦ A top-down approach with little cooperation
 - ✦ Staff insufficiently trained, inadequate IT systems
 - ✦ Reimbursement of costs and control of performance not based on accruals-based and cost accounting

III – Inadequate powers to track waste of money



- The Hellenic Court of Audit and the General Direction for Financial Controls focus on compliance, ex ante controls in their premises
- Unclear share of waste in the 15.4% deficit of 2009. A 2.5% of GDP decrease of intermediate consumption expenditure over 4 years
- The Commission suggested in its latest review:
 - Restructuring of state-owned enterprises
 - Deal with extra-budgetary funds
 - Review the system of public wages
 - Rationalise overlapping responsibilities of some public administrations
 - Better targeting of social spending
 - Prioritise investment projects
 - Improve cost-efficiency in healthcare

Recent progress in Greece



- Law 3871/2010 of August 2010:
 - Creation of an internal control system for public financial management
 - Initiation of a strategic planning for public expenditure
 - Introduction of the principle of sound financial management

Latest review by the Commission



- Greece is making progress in implementing the Adjustment Programme (Review of 02/2011)
 - Accounting and control measures:
 - ✦ Providing relevant data (partially observed)
 - ✦ Information system interconnecting all public entities with General Accounting Office (partially observed)
 - ✦ Central registry for public enterprises and centralising their supervision (partially observed and observed)
 - Strategic planning and effectiveness
 - ✦ Achieving performance criteria for 2010 (partially observed)
 - ✦ Medium-term fiscal framework with 3-year ceilings (partially observed)
 - ✦ Targets for absorption of EU Cohesion funds (observed)
 - Fighting waste of money and relevant reviewing mechanisms
 - ✦ Reduction in immediate consumption (observed)
 - ✦ Reducing costs in local government (observed)
 - ✦ Creating a budget office providing independent scrutiny to Parliament (partially observed)