

Game Theory's Reflection to the Audit World

The great economic and financial crisis which began in 2007 revealed the narrow links between Financial Markets and fiscal policies and showed at the same time the necessity to revise our old notions on sound financial management.

Seven claims will be treated here with a view to providing a picture of the surrounding financial reality. All of them put into a broader perspective the Greek financial crisis, its origins and its outcome. All give insight to the game between Sovereign States and financial markets, explaining its fundamental importance in the current realities. All concern the problems, the challenges and the limits which the accounting and auditing functions experience in this new environment. And, finally, all offer the necessary elements to understand why transparency and accountability cannot be currently perceived the way they used to be before the great crisis we are living

Sovereign States, neglecting their role as regulators, profit from financial engineering. Their game with the financial markets may be win-win or cooperative but it may also be a zero-sum game.

In November 1999, the United States Congress repealed the Glass-Steagall Act of 1933, which had split the investment banking and commercial banking industry in two, separating the risk-taking side of banks from the deposit side. Then in December 2000, the government passed legislation exempting derivatives from more intense federal scrutiny. During the first decade of our century the bonds and derivatives Markets attained astronomical heights. Comparing with US growth domestic product (GDP) at 14.3 trillion dollars (2008), face value of outstanding over-the-counter derivatives peaked at 685 trillion dollars in June 2008, the gross market value of which at the end of 2008 was 34 trillion and their net value 3,5 trillion¹.

Financial engineering, without having to worry about government regulations, had abundantly delivered to investors, financial products, notably the collateralised debt obligations, in which high risk mortgages were presented as safe investment². The main underlying idea was to hedge the mortgage companies against the default risk of their customers by packaging risky loans in mortgage bonds. The Government was happy with such a development. More people were, in this way, able to have access to property. Between Government, not interfering in the Markets, and the Financial Markets, presumably protected against risks of default, a game was then playing which appeared to have only win-win results.

This game was not the only one played between Sovereign States and Financial Markets. The bonds market offered to the States, amongst other things, the possibility to draw from the Markets money to finance their policies. The global economic development during the past decades had made available huge quantities of money waiting for a safe investment. And the Sovereign States bonds offered such an opportunity. Greece was one of the States to profit most from this cooperative game with the Financial

¹ Mark Levinson, Guide to Financial Markets Fifth Edition, The Economist 2009, p. 209.

² See also Michael Sakbani, The global recession – Analysis, evaluation, and implications of the policy response and some reform proposals.

Markets. Although obliged by the European Union treaties to reduce its debt ratio to less than 60% of its GDP, Greece's debt ratio stayed during the last decade constantly around 100%³, albeit during a period of spectacular national economic growth. In Iceland the cooperative game took an extreme dimension. Icelandic banks were massively investing abroad in the most sophisticated products⁴ while lending Icelanders money to buy massively stocks and real estate. Iceland was "no longer a country but a hedge fund"⁵. The country saw its GDP multiplied nearly threefold in ten years and all of its new wealth was, in one way or another, tied to the new investment banking industry⁶.

However, this nice picture of the relations between States and Markets is not complete. Markets had developed also the so called naked credit default swaps - those in which buyers don't own the underlying bonds - to bet on the default of their borrowers. Credit default swaps is by its nature a zero sum game⁷. They are contracts in which two parties agree to exchange the risk that a borrower, who can be a third party, a Sovereign State for instance, will default on its bonds or loans⁸. By this way, the financial machine was, on one side, selling bonds and, on the other side, it was betting against them. On one side markets were lending to States and on the other they were betting for their default⁹.

Financial Markets are not driven merely by irrational forces such as greed and fear and they are not mere free riders or parasites in the capitalist economic system. Their agents use complex mathematics to advance their winning strategies, their impact in the capitalist economy is not, in principle, negative.

The Efficient Markets Hypothesis, a theory which constitutes the mathematical expression of the Invisible Hand Doctrine, claims that Markets integrate in the prices of products and services all kinds of available information in a way which generates the best possible equilibrium between supply and demand¹⁰. Financial Markets raise capital and manage risks. By doing so, they allocate "efficiently" financial resources to the benefit of the capitalist economy. When States borrow from the Markets, they obtain money at the best possible interest rate in relation to their capacity to reimburse. In this way, Markets finance public policies offering to States financial resources they could not get easily by other means.

Furthermore, concerning the agents of the Financial Markets, it is true that brokers and dealers are driven by their own interest. It is also true that they are morally agnostic, although the respect of the law is for them a requirement included in their risk avoiding strategy. But it would be simplistic to interpret their behaviour as mere speculation. Many people consider them as poker players making decisions intuitively or just bluffing. In reality, the most advanced of them rely strongly on a quantitative approach,

³ Ana-Maria Minescu, The Debt Crisis – Causes and Implications – Petroleum-Gas University of Ploiesti, Economic Sciences Series, No 2/2011, p. 99.

⁴ Throstur Olaf Sigurjonsson and Mar Wolfgang Mixa, Learning from the "Worst Behaved": Iceland's Financial Crisis and the Nordic Comparison, 2011 Wiley Periodicals, Inc.

⁵ Michael Lewis, Boomerang – The Meltdown Tour, Allen Lane – Penguin Books, p.1.

⁶ Sigríður Benedíksdóttir, Jon Danielson and Gylfi Zoega, Yale University – London School of Economics- University of Iceland and Birkbeck College, London, Lessons from a collapse of a financial system, 6 of October 2010, p. 3, 8, 11.

⁷ Michael LEWIS The big Short – A true story, Penguin Books 2010-2011, p 53, Wall Street Journal, 15 Nov. 2011, 23.

⁸ Marc LEVINSON Financial Markets p 226

⁹ See also Thomas L. Friedman, The One about the Bankers, International Herald Tribune, October 31, 2011 p.7.

¹⁰ Eugene F. Fama, Efficient Capital Markets: A review of Theory and Empirical Work, Journal of Finance, Volume 25, Issue 2 (May 1970), p. 383-417.

making their decisions on the basis of mathematical formulas¹¹. In recent decades, a vast risk management and pricing system has evolved, combining the best insights of mathematicians and finance experts supported by major advances in computer and communications technology. Physicists and engineers found that they could use the maths to make millions in the Financial Markets. Programmes dedicated exclusively to training financial engineers have been developed in major universities. Computer models, designed to map human speech and based on probability functions, try to guess what sound is coming next. Financial models, by switching complex speech recognitions models into financial data processing, can discern a range of probabilities for future trends¹².

The crisis of 2008 confirmed for many people the idea that the Market is random and thus mathematics can do nothing to foresee its movements¹³. But this was not the opinion of finance mathematicians. They are still claiming: our formulas failed because there was too little mathematics¹⁴.

In our days, full sovereignty of a State means its capacity to borrow from the Markets at a sustainable rate. Otherwise countries have to face under-development, economic disaster or, at best, borrowing from other States or international bodies subject to their conditions. Greece is going through such an experience.

The fundamental idea behind Efficient Market Hypothesis is that all relevant new information about a stock is instantly priced into the stock, making it efficient for producing the best possible outcome. The process of injecting new information is like tossing a piece of meat into a tank of piranhas¹⁵. Before you know it, the meat has been devoured. The idea that the market is efficient postulates a world of investors constantly searching for inefficiencies. The goal for investors is to grab the discrepancies as quickly as possible. Every time prices deviate from equilibrium, computerised financial markets agents transform the other's errors into their own opportunity.

Greece offered them such opportunities in October 2009. During this month information coming out from the country indicated that the foreseen budget deficit for the current year would be multiplied by four and, furthermore, that suspicions of financial data misreporting were confirmed. Greece had already constant macroeconomic imbalances, a huge sovereign debt and a political tradition of lax economic policies. Its accounting system was obsolete, there was no strategic thinking tradition in the government and its public audit institution's powers were limited to legality and regularity audit¹⁶. The only positive element in the picture was Greece's economic growth amounting to an average 4% for the last decade. However, reports indicated that for 2009 a recession was probable. Bad figures and mistrust were enough for the Financial Markets to react rapidly and violently. From October 2009 to spring 2010 borrowing costs for refinancing Greek debt rocketed sky high. At the same time, credit default swaps soared. Greece was by April 2010 unable to finance its needs by borrowing at sustainable interest rates. European Union Euro-zone members and the International Monetary Fund (IMF) came in to fill the gap. By this time, a

¹¹ See Scott Patterson, *The Quants: How a New Breed of Math Whizzers Conquered Wall Street and Nearly Destroyed it*, January 25, 2011, p. 106.

¹² Scott Patterson, *The Quants: How a New Breed of Math Whizzers Conquered Wall Street and Nearly Destroyed it*, January 25, 2011, p. 114.

¹³ See also Nassim Nicholas Taleb, *The Black Swan: The impact of the high improbable*, Random House 2007, criticising the approach based on historical assumptions, p. 200.

¹⁴ John Geanakoplos, *Financial Theory*, third lecture (Computing Equilibrium) min:2.36, Open Yale Courses in <http://academicearth.org>.

¹⁵ Michael Lewis, *Liar's Poker*, Hodder 1989, p. 81. Scott Patterson, *The Quants: How a New Breed of Math Whizzers Conquered Wall Street and Nearly Destroyed it*, January 25, 2011, p. 84.

¹⁶ Ioannis Sarmas, *The Greek Financial Crisis from an Auditor's Point of View*, World Class Performance Symposium 2011: Trust and accountability in public financial management, 17 March 2011, Westminster, London. See infra next chapter.

Greek default was perceived as a major systemic risk for the whole financial edifice. Greek sovereign debt bonds amounting to more than 300 billion¹⁷ were held mainly by financial institutions in Europe and a refusal by Greece to pay them back was considered as an event comparable to the Lehman Brothers bankruptcy. To avoid such a risk, Greece had to be bailed out for the next three years to the amount of 110 billion Euros¹⁸.

What has followed is often described as the Greek drama. Measures taken to ensure the reimbursement of the loan were perceived by trade unions as unfair and rejected by large parts of the population as inspired by a free market agenda¹⁹. Almost two years later, the ability of Greece to come back to the Markets borrowing from them at a sustainable rate looks very remote. A troika deals in detail with its internal affairs indicating, under the threat of stopping the next instalments of the loan, the appropriate measures to take.

National Governments are not only accountable to their Parliament for the fiscal policies they are running but also to the Financial Markets, especially when governments are under economic distress. Financial Markets have a broader notion on the sustainability of a State's finances, including systemic risks and macroeconomic imbalances. Acquiring the market's confidence may thus trigger changes in economic policies and even, of governments.

The Irish crisis was very different from the Greek one. The Irish government had no deficit in 2007 and no big ratio in its public debt. There were no problems with complex derivatives or shadow banking systems as in the United States. The origin of the Irish crisis was a classical 19th century or even 17th century banking collapse²⁰. It appears that Ireland's only reason to become hard hit by the crisis was that during the previous decade, Ireland had turned into a nation of property developers. The Irish construction industry had swollen to become nearly a quarter of Irish GDP - compared to less than 10 per cent or so in normal economy, - and the country was building half as many new houses a year as the United Kingdom, which had 15 times as many people to house²¹. Ireland's fall began when property prices started falling in 2006 – 2007, and it continued with the crash of shares in Irish Banks. On September 29, 2008 the stocks of the three main Irish banks had fallen between a fifth and a half in a single trading session and a run on Irish deposits had started. The Irish government was about to guarantee all the obligations of the six biggest Irish banks. This decision transformed the banking crisis into a sovereign debt crisis, with a big rise in Irish borrowing costs and culminated in Ireland's acceptance of a bail-out from the EU and IMF in November 2010²².

The Irish case made evident the limits of assessing sound financial management on the basis of data such as public deficit, debt as a percentage of GDP and inflation rate. From the Maastricht Treaty criteria perspective I have just mentioned, Irish fiscal management was sound. However, serious macroeconomic imbalances had appeared in the Irish economy from the middle of the last decade and few economists had anticipated the risk of busting the property market.

¹⁷ Explanatory report – Budget of the financial year 2011, p. 160 and ODDHX (Public Debt Management Service of the Ministry of Finance.

¹⁸ See SEC (2011) 808 Final.

¹⁹ International Herald Tribune, 16 Nov. 2011, p. 18.

²⁰ Ana-Maria Minescu, The Debt Crisis – Causes and Implications – Petroleum-Gas University of Ploiesti, Economic Sciences Series, No 2/2011, p. 99.

²¹ Michael Lewis, Boomerang – The Meltdown Tour, Allen Lane – Penguin Books, p. 90.

²² Constantin Gurdgiev, Brian M. Lucey, Ciaran Mac an Bhaird and Lorcan Roche – Kelly, The Irish Economy: Three Strikes and You're Out?, PANOECOMICUS, 2011, 1 p. 22-25

Financial Markets, together with the rating agencies, pay close attention when assessing the soundness of fiscal policies on one basic criterion: the ability of a State to pay its bills in the near and the remote future. This criterion changes fundamentally the way we perceived accountability of State managers until now. In our democratic societies, governments were accountable to the Parliament for the execution of the budget the latter had voted, and, in order to obtain discharge for their management, they had to prove, after the fiscal year, that their management had been made legally and had produced the expected results. Financial Markets care mainly about the future, being sensitive to any kind of risk which may affect the reimbursement capacity of a State. Every time a State comes to the Markets to ask them for loans, a vote of confidence of the Markets toward this State takes place. Trust or mistrust is reflected on the borrowing costs. Being a “triple A” State, or, in other terms, having the best possible rating has become a national objective of utmost importance. To obtain, to maintain a high rating, or, as in the case of Greece, Ireland and Portugal, to be able to be back in the Markets, changes the way internal policies are conceived and assessed. From this perspective, Financial Markets may certainly exercise on one hand a tyrannical pressure on democratic governments, but on the other hand they work to maintain resistance to demagogical or populist policies²³

Accountants and auditors together with their standard setting bodies have been the collateral victims of the financial crisis. Their practices and standards came under heavy criticism for having accelerated or even triggered the crisis. In substance, accountants and auditors are accused of not having recognised risks which could only imperfectly be assessed by using extremely complex mathematics.

Financial Engineers created a security so opaque and complex that it remained misunderstood by investors and rating agencies – the synthetic sub-prime mortgage bond-backed collateralised debt obligation (CDO). Like the credit default swap, the CDO had been invented to redistribute the risk of corporate and government bond defaults. Its logic was that of the original mortgage bonds. In a mortgage bond, thousands of loans are gathered and, assuming that it was extremely unlikely that they would all go bad together, a tower of bonds is created, in which risk is diminished. In a CDO you gathered one hundred different mortgage bonds and then used them to erect a new tower of bonds. Having gathered 100 ground floors from 100 different sub-prime mortgage buildings (100 different triple B rates bonds) the producers of CDO persuaded the rating agencies that the sub-prime bonds weren't all exactly the same thing despite appearances²⁴.

In February 2008, the Auditor of a big audit company concluded that the big insurance company he was auditing suffered from a material weakness in the way it valued its CDO positions. In essence, the audited company's accounting had reflected what its mathematical models said its CDO contract should be worth. It did not account for the fact that the company's trading partners were marking such assets down and that, in the real world, mortgage-backed securities were sinking like a stone. After raising the auditor's concerns, the directors realised that their company had to revise its forthcoming earnings report. This resulted in a quarterly loss of billions. At the end of February when the loss was disclosed along with the finding of material weakness, the stock surrendered a fifth of its value in two weeks²⁵.

Without good information Markets can't work well, and an important part of providing good information is having good accounting systems so that market participants can interpret – in a meaningful way – the data that is being provided²⁶. Fair value accounting – imposing the presentation of a company's

²³ F.A. Hayek, Law, Legislation and Liberty, Volume 3, p. 3-5, Routledge & Kegan Paul London 1982, also The Road to Serfdom: Fiftieth Anniversary Edition (Introduction Milton Friedman).

²⁴ Michael Lewis, The Big Short – A true story, Penguin Books 2010-2011, p. 72 – 73

²⁵ Roger Lowenstein, The End of Wall Street, Penguin Books 2011, p. 121-122.

²⁶ Joseph E. Stiglitz, Freefall: America, Free Markets and the sinking of the World Economy, October 4, 2010, p. 156.

assets at their current market value and not at their face historical value – served this objective in accordance with the accounting profession basic principle of giving priority to substance over appearance. However, fair value accounting was heavily criticised, even before the crisis of 2007 – 2008 for having a pro-cyclical effect, and during the crisis for being at the origin of the big bank crisis of 2008. European Union Authorities were critical of the fair value accounting and even more of the accounting standard setting body. The European Commissioner for Internal market had stated already in February 2008: there is a growing debate on whether fair value and mark-to-market measurements may have aggravated the crisis by bringing a pro-cyclical effect in financial statements. The European Parliament committee of Economic and Monetary Affairs criticised at the same time the International Accounting Standard Board governance for lacking transparency, legitimacy, and accountability and for not being under the control of any democratically elected parliament or government²⁷.

However, the problem was not the fair value accounting as such. The problem was the financial products it had to evaluate. The Financial Markets had created products so complex that even if all the details of them were known no one could fully understand their risk implications. Fair value accounting may be reliable when it is marked to market, which means when there is a market of the financial products under assessment which gives a picture of their market value. In the case of CDOs, each of them packaged a big number of different mortgage loans and they were traded over the counter, under non-transparent conditions. There was for them no real market, which could, according to the Efficient Market Hypothesis, integrate all the information available about them and especially the risks each one of them included. To put it in other terms, accountants and auditors were faced with an impossible task in respect of the financial engineering involved.

It is out of the question to take here any position against or in favour of the arguments developed in respect of fair value accounting and its contribution to the crisis of 2007 – 2008. However, it is worthwhile noticing here that the Greek financial crisis was triggered when information on misreporting financial data was revealed, creating mistrust in the reality of the Greek fiscal position. Fairness of the financial reporting is the core value and fair value accounting is undoubtedly serving this core value. Collateral damages – such as pro-cyclical effects – which fair value accounting may produce should certainly be contained, but side effects of fair value accounting are not a sufficient reason to reject it entirely.

Four major reforms, currently in progress in the European Union's Institutions have a common objective: to contain the nuisance potential of the Financial Markets towards EU Member States. This is the case with the new bailout fund to help States in distress, the preventive mechanism for fiscal problems, the new arrangement for avoiding systemic risks and the regulative and surveillance arrangements of derivatives markets.

The Greek crisis has revealed the weaknesses of the fiscal arrangements within the European Union in protecting the European Common currency. Since the beginning of the crisis, the Greek Prime Minister had asked his peers for Euro-zone Members States solidarity, meaning a bailout of Greece with European Member States loans. In spring 2010 Greece was supported via bilateral loans to avoid default²⁸ and, later, a fund was created to bailout any Euro-zone country rejected by the Financial Markets. A new treaty is already under discussion to institutionalise a European Stability Mechanism which would function as a monetary fund to provide financial assistance to Euro-zone countries under distress.

At the same time, a second major reform has been undertaken to prevent at a very early stage a fiscal crisis such as the ones that occurred in Greece, Ireland and Portugal. A preventive mechanism is foreseen,

²⁷ E.Bengtsson, Repoliticalization of accounting standards setting – The IASB, the EU and the global financial crisis – Critical Perspectives on Accounting 22 (2011), p. 567-580.

²⁸ See Intercreditor Agreement of 8 May 2010 and Council Decision of 10 May 2010 (2010/320/EU).

under the umbrella of the European Semester²⁹, which in substance gives to the European Commission extensive powers for assessing the sustainability of Euro-zone Member States fiscal policies, in view of the common currency requirements for budgetary discipline. Although no binding power is given to the Commission³⁰, the assessment to be done by its services should be thorough regarding the plausibility of the economic projections made by a Member State, and the correctness of the macroeconomic assumptions on which the draft national budget is based.

The third and the fourth big reforms are inspired by the crises of 2007 and 2008 and concern systemic risks for the economy and over-the-counter derivatives. Three authorities have been established, the European Banking Authority³¹, the European Insurance and Occupational Pensions Authority³² and European Securities and Markets Authority³³ to protect the public interest by contributing to the short, medium and long-term stability and effectiveness of the financial system, paying particular attention to any systemic risk posed by financial Institutions. A European Systemic Risk Board, responsible for the macro-prudential oversight of the financial system within the Union, has also been established in order to contribute to the prevention or mitigation of systemic risks to financial stability in the Union taking into account macro-economic developments³⁴.

Finally a fourth reform, which is currently under preparation, aims at imposing transparency to the over-the-counter derivatives markets by disclosing of trade data to the public, reporting of transactions to a public authority, trading of derivatives on organised venues, banning naked CDS and demanding that complex credit products receive two independent credit ratings³⁵.

In the new environment in which Financial Markets constantly assess financial sustainability of States, international public sector accounting and auditing principles offer a common language for fairly describing and assessing the fiscal position of a public entity. In parallel, the international standard setter is working to produce standards covering a broader picture on financial sustainability.

Revelations of financial misreporting triggered the confidence crisis against Greece in October 2009 paving the way to its following woes. Complexity and opacity in public accounts create doubts, lack of information or incomplete information fuel catastrophic rumours. Complete, accurate and meaningful reporting of financial information is of utmost importance in creating trust to the reporting entity. The European Union's Institutions follow for their accounts the International Public Sector Accounting Standards. By doing so, they produce accounts adhering to an internationally common accounting language, making their financial statements easily understandable worldwide. At the same time, the European Institutions, using accrual-based accounting, supply meaningful information to any interested

²⁹ COM (2010) 250 Final, COM (2010) 367 Final, EUCO 13/10.

³⁰ See Paul Hannon, The Ins and Outs of Future European Integration, November 1, 2011, The Wall Street Journal.

³¹ Regulation (EU) No 1093/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority (European Banking Authority), amending Decision 716/2009/EC and repealing Commission Decision 2009/78/EC, L 331/2010.

³² Regulation (EU) No 1094/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority (European Insurance and Occupational Pensions Authority), amending Decision 716/2009/EC and repealing Commission Decision 2009/79/EC, L 331/2010.

³³ Regulation (EU) No 1095/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority (European Securities and Markets Authority), amending Decision 716/2009/EC and repealing Commission Decision 2009/77/EC, L 331/2010.

³⁴ Regulation (EU) No 1092/2010 of the European Parliament and of the Council of 24 November 2010 on European Union macro – prudential oversight of the financial system and establishing a European Systemic Risk Board, L 331/2010

³⁵ COM (2011) 652 Final, COM (2011) 656 Final. See also Wall Street Journal, 16 Nov. 2011, p. 6.

person on the cost of their policies by financial year, thus making possible the public scrutiny of the results obtained.

On the auditing side, the Contact Committee of the Heads of the European Union³⁶ and the International Organisation of Supreme Audit Institutions (INTOSAI) Governing Board³⁷ have recently recalled the Supreme Audit Institutions' responsibility in promoting accountability and transparency in public activities where public funds are at stake. The INTOSAI took major steps towards a common auditing language by endorsing last year a comprehensive set of financial, compliance and performance auditing guidelines, drawn, where applicable, on the International Standards on Auditing³⁸.

Transparency and accountability, which first and foremost are essential democratic values, have also an important impact on the way Financial Markets are convinced on the sustainability of State's finances. The International Public Sector Accounting Standard Board extended the concept of public sector reporting standards, and put out to an open consultation last October Recommended Practice Guidelines for reporting on the Long-Term sustainability of "Public Sector Entity's Finances"³⁹. The objective of this draft guideline is to provide guidance on how to supplement the statements of financial performance and financial position and meet the objectives of financial reporting (accountability and decision-making) by presenting projections of inflows and outflows and complementary information on an entity-projected long-term fiscal sustainability.

The Accounting and Auditing Functions are preparing to face the challenges raised by the Financial Markets to the Sovereign States in an adequate way. Facing forces driven by greed and fear and using complicated mathematics to win, Sovereign States have no choice but to adapt themselves to the new environment. In this context, internationally accepted accounting and auditing standards have an important role to play in enhancing trust between Sovereign States and Financial Markets.

Transparency and accountability in public financial management should from now on be understood in the context of the influence Financial Markets have on the Sovereign States' daily life.

Transparency, on the one hand, should no more mean the mere access to the financial data accountants and auditors deal with. Documents or data which are intentionally complex so that they hinder from an intellectual point of view the access to them are not transparent. Dealing with uncertainty, processing to risk assessment in order to evaluate the price of an asset poses a serious challenge to the accounting and auditing function. Current developments in public management require much more from it. To assess fiscal sustainability of a public entity it may be necessary to proceed to complex investigations on the macroeconomic vulnerability of the entity and the systemic risks which surround it, while making difficult projections on future financial positions. Transparency in this case is, from an accountant's and auditor's point of view, the completeness and reliability of the data provided and the plausibility of the projections made. Accountability, on the other hand, includes now not only what it used to mean under our democratic traditions, but also fiscal responsibility vis-à-vis the Financial Markets when national States need their money. It is certainly a very unfortunate development for the people's sovereignty to introduce, when defining public policies, Financial Markets as de facto partners. But this is unavoidable if Sovereign States recognise that, on balance, borrowing is for them preferable to taxing their citizens to carry out a needed public policy.

³⁶ Resolution on the Statement of SAIs of the euro area on the external audit of the ESM (CC-R-2011-01), 14 October 2011.

³⁷ Resolution of the INTOSAI Governing Board , 28 October 2011.

³⁸ The South Africa declaration on the International Standards of Supreme Audit Institutions, XX INCOSAI, Johannesburg, 27 November 2010.

³⁹ Exposure Draft 46, October 2011.

