The Greek Financial Crisis from an Auditor's Point of View

The Greek financial crisis is due, first, to the lack of an effective internal control system allowing the Government to pilot the country out of turbulence zone

Continental Europeans do not always understand easily the differences between *control* and *audit* and worse we use often one word instead of the other. In Greek, audit and control are covered by the same word. In the modern management vocabulary they have, however, a different meaning which is important to explain now. To take an illustrative example: A pilot of an airplane *has the control* of the aircraft in the sense that he is able to fly it safely and reach his destination on time. The control is the management framework in place to ensure obtaining the expected results. Giving this meaning to the word *control*, it is obvious that between control and audit there is a big difference in meaning. The audit, on the other hand, is a process of review by a third person to assess compliance with rules, standards or objectives set. Lack of control in the Greek case meant that the government did not have the appropriate information to anticipate the financial crisis which was arriving, neither appropriate tools to prevent the damages it was about to cause.

The level for the Greek public deficit for 2009 is a striking example of this lack of control. I will give you four figures for comparison. By April 2009, the expected public deficit in Greece for 2009 was calculated at 3.7 % of GDP. Just after the parliamentary elections held in October of the same year the Greek government announced a revised public deficit at 12.5 % of GDP. By April 2010 the European Commission established the deficit for 2009 at 13.6 % of GDP. This figure was again revised in November 2010 to 15.4 % of GDP.

A report on Greek government deficit and debt statistics published by the European Commission in January 2010 provided an in-depth analysis to explain the discrepancies which appeared in the calculations of the Greek Public deficit. I quote from this report the most important information and remarks. (a) It appears that around 1 billion Euros of hospital liabilities, reported in the survey on hospitals, were ignored by the Greek authorities. The real total amount of hospital liabilities was still unknown. (b) The working balance of the governmental budget revision was due almost in its entirety to the inclusion of a previously neglected expenditure for an amount of 710 million Euros, a figure equal to the transfer from the State budget to the social security fund of a State-owned company. (c) It is still not clear whether privatization procedures have or have not been included in the working balances of the previous years and whether the transfer to a State-owned company has been recorded as a governmental expenditure or not. (d) In the event of a call of guarantee, if it was assumed that the guarantee would be repaid by the beneficiary, nothing was ever recorded in the tables. (e) Capital injections in public corporations had been considered as financial transactions with no impact on the deficit. The report concludes with the following remarks: Unreliability of data has been found. The public accounting system is inappropriate for correct reporting. There is a lack of accountability in the individual provision of figures combined with unclear responsibilities of the national services providing source data and unclear empowerment of officials responsible for the data.

The picture drawn by the European Commission in its report indicates that the Greek government was not sufficiently able either to get correct financial information or to measure the real impact of its decisions. Thus, the government was *not in full position to identify at first and then to avoid or mitigate the risks related to the reporting of the deficit figures*. An effective internal control system requires exactly the opposite. The Ministers and the government as a whole are managers who should have control of the situation as a pilot should have control of the plane. An appropriate public accounting system transparent, relevant, complete and reliable is an elementary condition for a government to have control of its management. The mistrust of the markets towards Greece's public financial management started when the real deficit figures were revealed.

The Greek financial crisis is due, secondly, to the lack in the public sector of a culture of effectiveness allowing the government to be accountable for the results gotten from its policies.

Until recently, economy, efficiency and effectiveness were not even mentioned in the state Financial Regulation. Legality and regularity of the transactions and consumption of the appropriations foreseen in the budget were the main criteria used to gauge a successful public management. Important reforms were introduced by acts voted by the Parliament, but as they were not included in a strategic package built around the means for their effective implementation, they were not implemented as they should.

An example will be given here to illustrate the above by presenting the conclusions of a non official report, prepared by private researchers, *Evolution of the Accounting Reform implementation in Greek Public Hospitals.* The initial efforts of introducing accruals-based accounting in public hospitals in Greece started in 1997 and in 1999 a pilot implementation project was launched in order to test the suitability of the new accounting system and its readiness for full implementation The Presidential Decree 146 of 2003 introduced the mandatory move to accruals-based accounting and cost accounting in all public hospitals. The Decree pointed out that the deadline for implementation of accruals-based accounting in public hospitals was the 1^{st} of January 2004 while the deadline for the cost accounting introduction was the 1^{st} of January 2005.

The researchers who carried out the enquiry have reached the conclusion – on the basis of the replies received – that by 2009 the level of implementation of the reform remained incomplete, the relevant statistics showing a very low rate of implementation. The reasons given by the researchers to explain the inadequate implementation of the reform were the following: (a) From the government accounting reform elaboration up till now, not much political debate has taken place and no serious political interest was expressed to modernise public management accounting. (b) The accrual accounting framework in question, centrally developed, has been imposed following a top-down procedure of policy formulation without the contribution and co-operation of the parties directly concerned in the implementation process. (c) Organizational capability factors hindered significantly the accounting reform process. They include the Accounting Department personnel's lack of sufficient training and the absence of staff with the required financial and accounting background to initiate, support and understand the merits of the reform process, the inefficiency of existing Information Systems to provide timely, reliable and valid data in an accessible format and the lack of support from professional consultants. (d) The hospitals' own costs were reimbursed *ex post* without any link to unit costs and performance measures which provided no incentives to public hospitals to stimulate efficiency and to save public money. (e) Public hospitals are evaluated and controlled on the basis of reports related to cash-based accounting and not to accruals-based accounting, as the control mechanisms have been designed to meet the needs of the former.

The unsatisfactory introduction by 2009 of the accruals-based accounting system in public hospitals cannot, of course, be blamed as a material reason for the Greek financial crisis. It remains, however, a good illustration of the lack of a culture of effectiveness which is undoubtedly one of the main reasons for increasing deficits. A useful reform had been initiated in the public hospitals conceived to rationalise their costs. But, apart from adopting the legislation which has launched the reform, no substantial measures had been taken to implement it. The report mentioned no training for the staff involved, inappropriate *Information Technology* facilities, no support from external consultants, no incentives for the managers of the hospitals, no penalties, no political perseverance. According to the report, the means which were normally required for the successful implementation of the reform were lacking'.

The Greek financial crisis is due, finally, to the lack of adequate powers given to the auditing mechanisms allowing them to focus on the waste of money, presumably the most important weakness of the Greek public management system.

The main auditing mechanism in Greece is the Hellenic Court of Audit, which is a supreme court modelled on the French Court of Auditors, and the General Direction for Financial Controls, which is a service of the Ministry of Finance. Both focus on legality and regularity of the payment orders, carrying out *ex ante* reviews in their premises. The Hellenic Court of Audit has no power to audit the performance of the public policies, being limited by its legislative framework to legality and regularity issues. Thus, economy and efficiency of the expenditure is out of its scope.

As no independent body was responsible in Greece for informing regularly the Parliament, the Government and the public on occasional or systemic cases of waste of money it was impossible to evaluate the proportion of useless spending included in the 36 150 billion euro public deficit of 2009 (15.4% GDP). However, the European Commission's third review of the *Economic Adjustment Program for Greece* published last February (2011) has identified areas where such spending occurs.

The following contains the main features: (a) *State-owned enterprises*: The European Commission suggests restructuring, making reductions in operational costs, reprioritisation of investments and adjustment in wages and employment. (b) *Extra-budgetary funds*: It is suggesting that entities with overlapping mandates should be merged, restructured or integrated into State budget, privatised or closed. (c) *Public wages*: The system of wages is qualified as complex and inequitable providing remunerations above the private sector for similar tasks. (d) *Public administrations:* They could be rationalised by eliminating overlapping responsibilities. (e) *Social spending*: a number of social programs may be eliminated or be better targeted. A potential review will identify priorities and quantify potential savings. (f) *Public investment*: the suggestion here is to prioritise projects and identify savings. (g) *Healthcare*: Improve cost efficiency focused on macro-level discipline and cost control, contain spending by improving the governance of the system.

As it is noted above, the lack of studies and reports does not allow presenting a complete view on areas of wasteful spending. Nevertheless, by comparing the figures of intermediate consumption expenditure from 2009 to 2010 it is possible to draw some conclusions. Intermediate consumption in 2009 was 16.71 billions and it has been decreased to 12.08 billions in 2010, almost 4 billions in one year. Further decreasing is expected in the two coming years to about 10.5 billions. The economy made represents a substantial part of the deficit at around 2.5% of GDP.