



**Audit Office
of the Republic of Cyprus**

The role of the SAIs in times of economic crisis

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June 2014



Cyprus - Financial Crisis

□ Main Reasons:

- Serious problems in the Cyprus banking sector.
- Problems in the public sector.
- Increasing public spending.
- Inherited from the EU political decision for PSI of the Greek government debt.



Economic Indicators

- ❑ GDP contracting at the end of 2013 by 5,4% (from 2,4% in 2012) –
Expected by the year end of 2014 to be 4,2%,
- ❑ Unemployment rising to 16% (from 12,1% in 2012) –
Expected by the year end of 2014 to be 18,6%,
- ❑ Public debt to 112% of GDP at the end of 2013 (from 86,6% in 2012)-
Expected by the year end of 2014 to be 121,5%.



Cyprus Economic Adjustment Programme

- ❑ Agreed on 2 April 2013 between the Troika and the Cypriot authorities.
- ❑ Then agreed by the euro-area Member States on 24 of April 2013.
- ❑ Covers the period 2013-2016.
- ❑ The financial package will cover up to 10 billion Euros (The ESM - 9 billion Euros, and the IMF - around 1 billion Euros).



Objectives for restoring the confidence of companies, citizens and foreign investors.

- Continue the on-going process of fiscal consolidation.
- Achieve the annual budgetary targets as set out in the MoU .
- Fully implement the defined fiscal consolidation measures.
- Correct the excessive general government deficit by 2016.
- Maintain fiscal consolidation over the medium term, converging towards a balanced budget in structural terms (including the implementation of a Medium-Term Budgetary Framework designed in accordance with EU specifications).



It is Crucial:

- ❑ All the public expenditure is carefully used securing value for money.
- ❑ Sound fiscal policy and expenditure prioritisation - good implementation of Structural and other EU funds, in respect with the programme's budgetary targets.
- ❑ EU funds to be targeted to those areas that deliver the most important economic and social impact.
- ❑ Necessary national funds remain available to cover national contributions.
- ❑ Transparency and accountability in the use of public funds.



SAIs Role in improving the transparency and accountability concerning the use of the public funds and resources

□ Difficult to achieve due to :

- severe staff constraints since recruitment of staff is not permitted,
- dramatic increase in staff deciding to retire early.

□ And the Result:

- More than 30% of staff positions remain vacant,
- more audit work is increasingly being requested and assigned to us also by legislation.



Role of the Audit Office of the Republic

- Troika has recognized the importance of our Office's role.
- MoU provides that the Auditor General's Office has sufficient financial means and personnel to carry out its functions and increased tasks.
- Recognized in the recently introduced public expenditure legislation - Fiscal Responsibility and Budget System Law:
 - includes provision for the preparation and audit of financial accounts of the General Government.
 - enforces the implementation of guidelines for public investment management, including project appraisals (public private partnerships (PPPs) implementation).



Large scale privatization scheme provided by MoU.

□ Privatization of:

- State owned telecommunication organization - functioning in an open market environment .
- State owned electricity organization - functioning as a monopoly.
- The main commercial port of Cyprus.
- Real estate and land assets.



Privatization plan prepared by the Cyprus Government.

□ Aims to:

- improve economic efficiency by encouraging more vigorous competition and greater capital inflows.
- restore debt sustainability through revenues of 1,4 bn euro by 2018 which will be used for public debt reduction.

□ The regulatory framework provides for the role of our SAI in safeguarding legally sound and transparent procedures.



What we aim for:

- ❑ Increase in transparency and raise the level of accountability .
- ❑ Make changes to improve the whole framework.
- ❑ Transform society and the mentality of the citizens (more active and demanding) in order to safeguard the future for us and our children.
- ❑ Enhance and safeguard, through our mission, transparency and accountability.



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Thank you.