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Internal Auditing in Public Administration (Hellenic Court of Audit) According to the International Standards on Auditing. The Abrogation of Preventive Control and the Budgetary Independence.

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ABSTRACT

This study investigates the evolution of internal auditing within the Greek public administration, with a specific focus on Local Self-Government Institutions (LSGIs) and the role of the Hellenic Court of Audit. It examines the transition from traditional preventive financial control toward a model of ex-post auditing grounded in fiscal autonomy, transparency, and accountability, in alignment with International Public Sector Accounting Standards (IPSAS). The paper underscores the legal context, structures, and functionalities of the changes based on the Law 4270/2014 and the Presidential Decree 54/2018 that aims at strengthening the reforms in the public secto accounting and accrual basis, IFRS. The main focus is made on the change of the last line of control, and the general impact on the local authorities. The implication drawn from this is that decentralisation of financial management has employed potentials as well as challenges; the variation demonstrate that the administrative preparedness for the LSGIs implementation is crucial. The study concludes that the effective implementation of these reforms depends on enhancing internal control systems, standardizing reporting procedures, and fostering a governance culture rooted in professionalism and public accountability. The research contributes to the discourse on public sector modernization and offers insights into the alignment of national auditing frameworks with international standards to support transparent and efficient public financial management.

1. Introduction

Over the recent past, there has been a growing emphasis on the development of auditing practices in the public administration to enhance on ways of increasing efficiency within this civil servant dominated sphere of the economy (Grossi et al., 2023; Mattei et al., 2021). The Greek public sector, for a long time has been experiencing an elaborate and bureaucratic practice of auditing with certain precautionary driven organized financial supervisory system, transforming now towards the category of the international standards of auditing (Gkouma & Filos, 2022).

Since the onset of the global financial crisis in 2010, numerous governments have implemented austerity policies and reduced public expenditure, despite the increasing societal demand for improved and expanded public services (Pollitt, 2010). Within this context, the pressure to contain public spending while enhancing the efficiency and effectiveness of public sector operations has grown considerably (Pollitt & Bouckaert, 2004). As part of the broader effort to modernize and improve public administration, mechanisms of administrative oversight—both in the form of conventional compliance audits and more advanced performance audits—have attracted growing scholarly and professional interest (Torres et al., 2016). The rationale for public sector auditing is rooted in the reliance of governments on extensive bureaucracies to execute policy faithfully and competently. This creates a classic principal-agent dilemma, necessitating robust oversight mechanisms over the executive apparatus, or in other words, public administration.

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To address these challenges and minimize mismanagement risks, many countries have established Supreme Audit Institutions (SAIs) tasked not only with ensuring the legality of governmental expenditures but increasingly with assessing their efficiency and, more recently, their effectiveness as well (Blume & Voigt, 2007). In Greece, the corresponding SAI is the Hellenic Court of Audit (HCA), or *Elegtiko Synedrio,* which functions as a Supreme Court with jurisdiction over the legality and regularity of financial activities undertaken by public sector entities. Its staffing structure includes both judges, who typically have a background in law, and auditors, primarily trained in economics. The HCA operates under the judicial audit model—also referred to as the Napoleonic model—and its core function has historically been to conduct external audits that focus on compliance with legal and accounting standards (Kontogeorga, 2012).

In the broader debate on public sector reform, external audits have been widely recognized by both academics and professionals as essential tools for improving state operations, particularly in times of fiscal constraint (Reichborn-Kjennerud, 2013). Moreover, contemporary institutional scholarship increasingly emphasizes the significance of user-centered perspectives in the design and impact of external audits (Arthur et al., 2011; Morin, 2001). Traditionally, such audits can follow two primary approaches: pre-audits (preventive or ex-ante audits), which occur before or during expenditure execution, and post-audits (repressive or ex-post audits), which are conducted after the financial transaction is completed. Notably, the HCA stands alone among European SAIs in maintaining the preventive audit function. This model focuses solely on legality, without integrating performance auditing practices. Under this system, public sector bodies must submit payment orders for prior authorization by HCA commissioners. If the expenditure is deemed lawful, it is approved; if irregularities are identified, the request is returned without validation (Kontogeorga, 2016).

However, beginning in 2013, the HCA initiated a strategic reform agenda aimed at redefining its institutional mission, as presented in the Proceedings of the 19th Plenary Session of the Court held on October 30, 2013 (HCA, 2013). This agenda introduced a transition toward post-audit mechanisms, particularly targeted audits focused on high-interest areas of public spending. Additionally, recent legislative changes—effective as of January 1, 2019—have abolished the requirement for pre-audits, marking a significant institutional shift. These reforms align the HCA with international best practices by mandating the application of International Standards of Supreme Audit Institutions (ISSAIs). Nonetheless, the Court has acknowledged that the operationalization of ISSAIs remains at an early stage due to the absence of a formal audit regulation tailored to these standards (HCA, 2016). The initial targeted audits conducted between 2014 and 2016 are regarded as foundational efforts within a longer-term process aimed at improving risk analysis and oversight of public entities. In this vein, the HCA's strategic planning now envisions a gradual expansion of post-audit activities within a more targeted and risk-based audit framework, ensuring that significant public sector institutions are evaluated periodically and systematically.

The purpose of this paper is to critically examine the institutional transformation of internal auditing in Greece, with an emphasis on the role of the Hellenic Court of Audit in the context of these recent reforms. Focusing particularly on the abolition of preventive control and the incorporation of international auditing standards, this study analyzes the implications of these changes for transparency, accountability, and fiscal governance in Local Self-Government Institutions. By investigating the challenges and prospects of this transition, the paper aims to contribute to the broader discourse on public financial management reform and the alignment of national auditing practices with global standards.

2. Chapters

2.1 Chapter 1: The Institutional Framework and Evolution of Internal Auditing in Greek Public Administration

The current framework of public sector accounting and financial reporting in Greece reflects a complex and fragmented system shaped by its administrative structure and historically varied accounting practices. Under Law 3871/2010[1], the term "Public Sector" encompasses both General Government and Public Enterprises. The General Government is further divided into Central Government, Local Government Authorities (Municipalities and Regions), and Social Security Organizations, each with distinct responsibilities and accounting obligations. These institutional divisions are mirrored in the heterogeneity of financial reporting standards: different Presidential Decrees govern the accounting practices of each category, such as P.D.15/2011[2] for the Central Administration and P.D.315/1999[3] for Local Government, with varying accounting bases ranging from modified cash to accruals. This lack of uniformity has resulted in divergent charts of accounts and limited compatibility between financial data across entities, thus hindering the development of consolidated financial statements for the general government sector.

The budgeting process in Greece follows a cash-based system, primarily applied to the State Budget, which is prepared annually by the Central Government and excludes entities such as public hospitals, social security institutions, and local authorities, all of which operate under independent budgets. The budget functions not only as a fiscal planning instrument but also as a mechanism for resource allocation, accountability, and performance

[1] Law 3871/2010. Financial Management and Accountability. Government Gazette 141/A'/17-8-2010.

[2] Presidential Decree 15/2011. Content and timeline of the adoption of Double-Entry Modified Cash Basis of Accounting. Government Gazette 30/A'/2-3-2011.

[3]Presidential Decree 315/1999. Content and timeline of the Chart of Accounts for Local Administration Organizations. Government Gazette 302/A'/30-12-1999

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evaluation. Despite its centrality, the budgeting process coexists with the General Accounting System and the Public Accounting System, which operate in parallel and are based on different informational and procedural logics. Furthermore, all public sector entities must maintain a Commitments Register to report outstanding liabilities, contributing to a broader attempt to capture financial obligations more accurately.

A significant step toward harmonization with international practices was the issuance of Presidential Decree 54/2018[4], which introduced a unified accounting framework based on accrual accounting principles inspired by the International Public Sector Accounting Standards (IPSAS). This decree mandates the use of a common chart of accounts for all General Government entities and prescribes a new set of standardized financial statements, including the Statement of Financial Position, Income Statement, Cash Flow Statement, Statement of Changes in Equity, and accompanying notes. Additional reports, such as the Fiscal Report and the Budget versus Actual Statement, aim to enhance fiscal transparency and facilitate better evaluation of public sector performance. The financial statements under P.D.54/2018 were to be implemented in full by 2023, signifying a major transition from previously sector-specific standards.

These reforms are part of broader public financial management efforts aligned with fiscal consolidation goals and enhanced transparency, as supported by initiatives like the TRANSPARENCY program and the modernization of public administration through digital tools (e.g., SYZEFXIS, electronic document systems, and digital signatures) (Chytis et al., 2020). The implementation of IPSAS is expected to lead to multiple benefits: improved clarity and comparability of financial statements, enhanced trust among stakeholders, more rational resource management, and greater alignment with private sector practices. Furthermore, adopting IPSAS contributes to accurate financial reporting, better asset and cash management, and a strengthened auditing framework grounded in international standards. Although Greece remains in the early stages of IPSAS adoption, these initiatives collectively represent a critical shift toward a more cohesive, accountable, and transparent public sector financial environment (Chytis et al., 2020).

The fragmentation of accounting standards and reporting practices across the Greek public sector has historically posed significant challenges not only for financial oversight but also for the consistent application of internal auditing procedures (Gkouma & Filos, 2022). On the one hand, the currently horizontal structure of the audit authorities and the independence of the Hellenic Court of Audit has met significant challenges to exert the central control over decentralized structures like, municipalities or regions. These have prevented horizontal reconcilability and comparability of the financial statement data and also vertical integration, thus restraining potential of internal Audit for evaluation of the overall present and past financial compliance efficiency and performance. The effort to adopt International Public Sector Accounting Standards (IPSAS) through P.D.54/2018 represents not only an administrative and technical upgrade but also a structural precondition for the evolution of internal auditing practices in line with international norms (Gkouma & Filos, 2022).

In this light, the reorganization of financial reporting is directly linked to the modernization of the internal audit system and the wider objective of ensuring fiscal transparency and accountability across all levels of government (Gkouma & Filos, 2022). To Local Self-Government Institutions, which are often termed as under-resourced and experiencing institutional limitations, there is a challenge and a potential in the transition to unified accrual-based accounting as well as the use of the standardized financial statements. While it requires significant funds in staff education, system creation and modifications to processes, it also paves the way for high quality, risk-based auditing approaches that would in turn contribute greatly to data-driven decision-making in related governments and policies.

The alignment of accounting practices with IPSAS thus serves as an enabling condition for strengthening internal control frameworks and redefining the role of audit authorities, particularly as the public administration moves toward the abolition of preventive control and the enhancement of budgetary autonomy (Gkouma & Filos, 2022).

2.2 Chapter 2: International Auditing Standards and Their Application in the Greek Local Government Sector

The implementation of international accounting standards within the public sector is driven by a range of factors that collectively aim to enhance transparency, comparability, and accountability in financial reporting. This section delves into the principal drivers of such adoption, emphasizing their relevance in strengthening decision-making processes, fostering accountability mechanisms, evaluating the broader impact of public sector operations, and aligning national practices with global reporting standards (Knechel & Salterio, 2016).

A fundamental impetus behind the adoption of international standards lies in the pursuit of greater transparency and comparability in public financial information. Given the public sector's critical function in economic activity and its management of public funds for essential services and infrastructure, the provision of clear and accessible financial reports becomes essential. Transparent reporting allows stakeholders—including citizens, investors, and policymakers—to form an accurate assessment of a public entity's fiscal position and performance. This clarity ensures responsible governance and supports the sound management of public resources (Kotak, 2019). By aligning with internationally recognized accounting frameworks, public institutions can ensure uniformity in the recognition, measurement, and disclosure of financial data. Consequently, such alignment enhances the comparability of financial statements across various public entities and jurisdictions, thus facilitating more informed and consistent evaluations by stakeholders (Li & Moumen, 2020).

[4] Presidential Decree 54/2018. Specifications and timeline of the Chart of Accounts of the General Government. Government Gazette 103/A'/13-06-2018

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Equally significant is the role of international accounting standards in reinforcing public sector accountability. Public entities are entrusted with the stewardship of public funds and must provide credible and standardized accounts of their financial conduct. The adoption of these standards imposes clear, consistent reporting obligations, thereby ensuring the integrity, completeness, and transparency of financial disclosures (Moura & Rodrigues, 2016). In this way, stakeholders can hold public institutions accountable for their financial practices, which in turn bolsters public trust and supports institutional legitimacy. Moreover, such transparency enables effective oversight by auditors, regulatory bodies, and the broader public, thereby promoting the prudent use of public resources (Lantto, 2019).

Another important dimension of adopting international accounting standards is their capacity to support the evaluation of the broader economic, social, and environmental impact of public sector activities. Contemporary standards increasingly incorporate frameworks that extend beyond mere financial metrics to include sustainability and social responsibility considerations (OECD, 2019). Instruments such as the International Integrated Reporting Framework and Sustainability Reporting Guidelines guide public entities in disclosing non-financial information, including environmental initiatives and social outcomes. These disclosures allow stakeholders to form a more holistic understanding of the public sector's societal footprint and policy impact, encouraging sustainable practices and fostering a more comprehensive basis for governance and planning (Lantto, 2019).

Finally, international harmonization is a strategic objective underpinning the adoption of such standards, especially in an era of global interdependence. As economies and financial systems become increasingly interconnected, consistency in financial reporting across borders is essential (Parker & Guthrie, 2018). International accounting standards facilitate this alignment by offering a common framework for financial reporting, thus enabling comparability across jurisdictions. This harmonization simplifies the exchange of financial data, reduces barriers to international investment, and enhances cooperation among public sector entities and regulatory authorities.

In summary, the shift toward international accounting standards in the public sector reflects a multidimensional reform agenda aimed at improving financial management, governance integrity, and the quality of information available for public decision-making. These standards contribute to enhanced transparency, support the enforcement of accountability, promote the evaluation of non-financial impacts, and enable international comparability. Collectively, these objectives contribute to a more reliable, responsive, and globally aligned public financial reporting environment (Lantto, 2019).

2.3 Chapter 3: The Abolition of Preventive Control and the Shift Toward Fiscal Autonomy

The shift in the audit architecture of the Greek public sector, particularly as it concerns the abolition of preventive control exercised by the Hellenic Court of Audit, represents a profound transformation in the relationship between central auditing authorities and Local Self-Government Institutions (LSGIs). This reform that was legislatively discussed in Article 31 of Law 4270/2014 and then suspended until January 2020 due to implementational concerns effectively aims at shifting from an ex-ante system of financial control towards an ex-post one (Gkouma & Filos, 2022). Essentially it is a consequent development toward fixing greater level of autonomy in Independent budgeting by various organizations of public sectors including municipal being an authority and other regional units, besides the plea for efficient and most pertinent fiscal accountability. The implications of this change are manifold and invite scrutiny not only in terms of technical readiness but also in relation to broader governance outcomes—namely, transparency, institutional accountability, and the quality of democratic oversight.

Preventive control, as traditionally carried out by the Hellenic Court of Audit, involved the pre-authorization of specific financial obligations and expenditures by public entities before the actual disbursement of funds (Kontogeorga, 2018). While this mechanism has been intended to ensure the element of legal compliance and procedural formality, this has been an effective hindrance on financial adaption with the public procurement processes and procedures restricting the LSGIs strategic adaptability in responding to local demands. The whole idea of doing away with this system means that LSGIs are now required to come up with better ways that can enable them to ensure that legality of their spending decisions is equal to the efficiency with which they are implemented (Kontogeorga, 2018). This decentralization of financial control has brought about a change in auditing philosophy from the proactive one, where auditors aim at preventing lapses in financial propriety, to the reactive kind whereby the auditors' main function is to assert to the correctness of the financial records of an entity once transactions have been carried out there is a need for greater levels of internal control, audit readiness, and risk-based financial planning at the local government level.

However, this reform raises significant concerns regarding institutional readiness and the capacity of LSGIs to fulfill their enhanced responsibilities under a framework of fiscal autonomy. Many local authorities in Greece face considerable constraints in terms of administrative resources, technical infrastructure, and specialized personnel (Pitoska et al., 2020). This is because having no internal audit system and weak financial control mechanisms can lead to mismanagement, irregularities and sometimes even corruption. This is particularly important in the case of the municipalities, where internal control systems have not been developed or integrated in decision-making processes to the optimum extent. These changes also mean that thus the abolition of preventive control requires systematic provisions for building up institutional capacity, training of staff, and setting up checklists in line with the international best practices.

At the same time, the new audit model necessitates a cultural shift in public sector governance. Transparency can no longer be understood solely as the result of top-down oversight, but must be embedded in the internal processes and value systems of LSGIs (Pitoska et al., 2020). Public accountability must be reinforced through improved reporting systems, citizen engagement, and enhanced roles for municipal councils and audit committees.

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Therefore, the departure from preventive control should be viewed not just as a technical shift but as an invitation to build the culture of governance and compliance based on trust of the executive staff, professionalism and self-regulation of the institutions. Altogether, the main logical conclusion regarding the abolition of preventive control as the imperative for the Greek audit system to move to the modern world is that it should be complemented by the change in the competence, infrastructural support, and ethical readiness of the local government institutions.

3. Conclusions

The present study has examined the evolving framework of internal auditing in the Greek public sector, with particular emphasis on Local Self-Government Institutions (LSGIs), through the lens of international standards and the ongoing reforms led by the Hellenic Court of Audit. Thus, the analysis has indicated some trends from the traditional and centralized approaches of preventive control toward the ex-post accountability, fiscal decentralization, and modern auditing that complies with the principles of transparency, measurable comparisons, and the overall integrity of governance. This transformation is not cosmetic and not even confined to a process change; it is of a paradigm nature in terms of its implications to how public financial management is defined, delivered, and assessed.

The implementation of International Public Sector Accounting Standards (IPSAS), the introduction of Presidential Decree 54/2018, and the planned abolition of preventive control reflect a coherent, albeit ambitious, trajectory toward harmonizing Greece's public sector auditing with global best practices. However, it is crucial to note that this study shows that institutional, technical, and cultural issues still remain in place at the level of LSGIs indicating that many of them face temporal and human resource constraints, weak internal controls, and fragmented organizational reporting systems. These reforms cannot be fully driven by legislative accomplishments but the critical factors include adequate training of provincial leaders, revamping of operation systems and creating an accountability environment.

Ultimately, the Court of Audit's evolving role as a promoter of financial integrity—rather than a controller of daily transactions—signifies a maturing of Greece's public financial architecture. However, this maturation process must remain sensitive to the asymmetries within the public sector and must be supported by robust oversight, citizen participation, and institutional cooperation. Thus, this study reconfirms that audit reforms are not simply tools of control but constructs of democracy that can help to build trust, increase effectiveness, and enhance permanence of the civil service.

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