

THE IMPACT OF THE COVID-19 PANDEMIC ON THE PUBLIC SECTOR

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Abstract

The health crisis, unprecedented in the last 100 years, has repercussions around the world, with important effects on the global economy. At the same time, both public and private sector activity suffered, with consequences ranging from deficiencies in the activity of public entities to bankruptcy for private sector companies.

This paper aims to analyze the performance of the public sector in the context of the COVID-19 pandemic, including the external public audit activity carried out by the supreme audit institutions, being analyzed issues identified at international level regarding their approach to the new reality of the health crisis due to the infection with the new coronavirus.

The paper also comes with a number of proposals regarding the role of the supreme audit institutions in managing the crisis caused by COVID-19.

Keywords: supreme audit institutions, COVID-19, management, systemic audit, INTOSAI

JEL Classification: M42, H12, M54

Introduction

The new reality imposed by the COVID 19 pandemic has brought with it a number of changes in the world economy, changes that have affected both the public and private sectors.

In fact, all the states of the world have been affected, some even more, given that, in addition to the COVID 19 pandemic, they were already facing their own internal problems.

The COVID 19 pandemic affected all sectors of the economy, both private sector companies and public sector entities. The damage to the public sector has materialized through chaotic spending on health procurement, the lack of concrete and rapid actions to combat the spread of SARS COV2 virus, rapid intervention strategies in the economy, things that have affected the economy as a whole. Unemployment has also risen, due to massive bankruptcy and layoffs in the private sector, with major consequences for the state budget, which have been reflected in the payment of technical unemployment benefits. At the same time, most states felt the need for loans, due to high spending on sanitary supplies and other urgent expenditures caused by the COVID 19 pandemic. Thus, states had to act quickly to mitigate shocks to national economies, some of them faster and with more effective measures, others depending on their own possibilities.

The fact that the public sector was affected had a major impact on the services provided to the population, but also on GDP, taking into account the fact that the private sector was severely affected and the collection of taxes and duties was drastically reduced.

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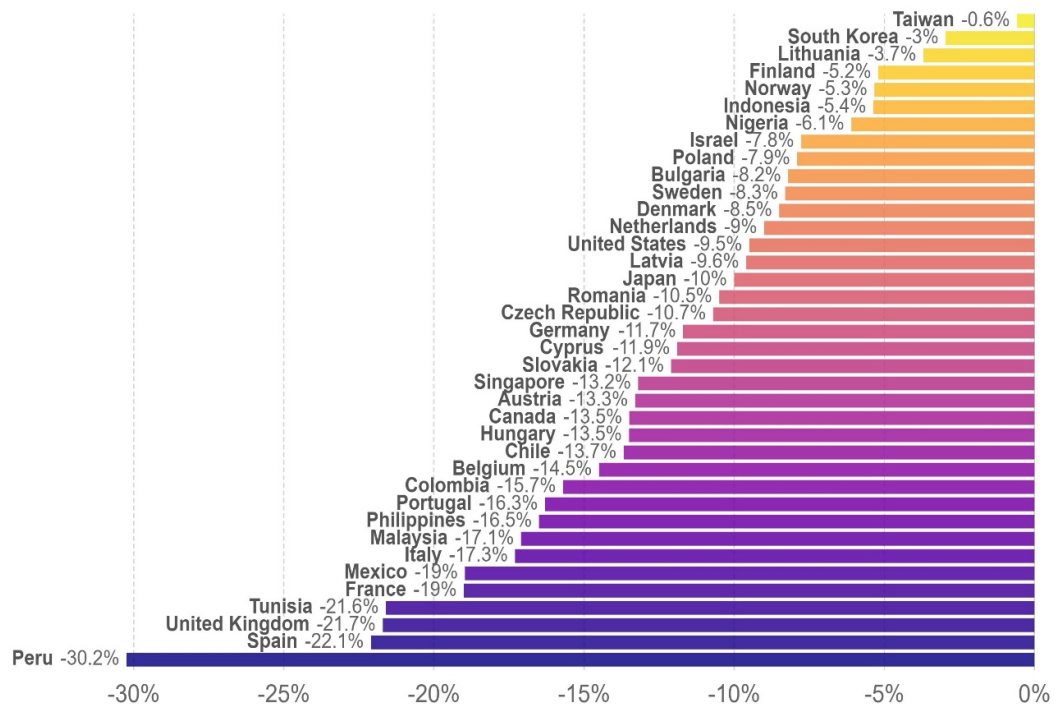


Figure 1 The economic decline in the second quarter of 2020 compared to the same period in 2019 (adjusted for inflation)

Source: Hasell, J., 2020. *Which countries have protected both health and the economy in the pandemic?* available at <https://ourworldindata.org/covid-health-economy>

Regarding the international economic decline, in the second quarter of 2020 (April-June), compared to the same period of 2019, there were decreases in gross domestic product, with values between 0.6 % and 30.2% (adjusted for inflation). Thus, according to data provided by 38 countries in terms of GDP, we note that in some countries the economic recession has been extremely severe (Spain, the United Kingdom and Tunisia and Peru), with more than 20 percent decline, while in some countries, such as Taiwan, South Korea and Lithuania, the decline was smaller (Figure 1).

In addition to declining gross domestic product, the national economies are facing other problems, such as the lack of medical equipment in hospitals, including protective equipment for doctors, which jeopardizes the proper functioning of the national health system, the most important at this moment, being the one who saves lives. At the same time, the performance of the public sector was affected, if we take into account the number of illnesses among employees in this sector, but also the lack of rapid reactions to the new crisis.

1. European Union lines of action regarding the COVID 19 pandemic

At European Union level, the European Commission has issued a Communication (European Commission, 2020, *Commission Communication: Coordinated Economic Response to the COVID-19 epidemic*) addressing the main problems facing the Union due to the COVID 19 pandemic, while a series of proposals and lines of action that limit as much as possible the losses of human lives, but also those of a financial nature. Thus, the Commission proposes to ensure solidarity in the single market, through the provision of medical equipment and measures in the field of tourism and transport (sectors severely affected by the COVID 19 pandemic). The document also talks about mobilizing the budget of the European Union and

the European Investment Bank, state aid and making full use of the flexibility of the European budgetary framework [1].

The structures of the European Union have played well-defined roles in the context of the COVID 19 pandemic. Thus, the European Commission coordinates the Union's joint effort and provides policy support at national level. The European Central Bank adopts monetary policy measures to support the euro area, while the European Investment Bank provides support to SMEs. The European Center for Disease Prevention and Control also has an important role to play in managing the COVID 19 pandemic, by monitoring the spread of the new coronavirus and assisting the European Commission and member states. The European Medicines Agency, another very important structure in the European Union in terms of the COVID 19 pandemic, has the role of verifying the efficacy and safety of treatments, but also of future vaccines against the new coronavirus.

At the same time, all EU member states have taken steps to combat the spread of the new coronavirus, based on recommendations issued by the European Commission, but the effects have been different from country to country, proving that there is no "prescription" to produce unitary effects at the level of the European Union, but rather the effects are found taking into account the economic situation of each member state.

The European Union has also launched the Team Europe initiative, which aims to save lives in the context of the COVID 19 pandemic by providing rapid and targeted support to member states. This support is based on the resources of the European Union, the member states and financial institutions (in particular the European Investment Bank and the European Bank for Reconstruction and Development). At the same time, one of Team Europe's priorities is to step up support and increase response capacity in countries where health systems are weaker, with a particular focus on international cooperation [2].

Regarding the perception of European citizens about the actions taken by the European Union in the context of the COVID 19 pandemic, a study carried out at the European Council on Foreign Relations revealed a number of interesting aspects, which will be presented above. The study was conducted in 9 countries of the European Union in April 2020. The 9 countries in which the study was conducted are the following: Denmark (sample size 1,000 people), France (2,000 people), Germany (2,000 people), Italy (1,000 people), Poland (1,000 people), Portugal (1,000 people), Spain (1,000 people), Sweden (1,000 people) and Bulgaria (1,000 people) [3].

The study addressed a number of issues regarding the COVID 19 pandemic, including the attitude of European citizens towards the European Union in the context of the pandemic, their perception of their biggest ally in the fight against the new coronavirus, and the main things that should be changed at European level with the end of the health crisis.

Regarding the perception of the citizens of the 9 countries participating in the study regarding the relevance of the European Union as a supranational body, the situation is presented below (Figure 2):

The European Union has been irrelevant during the pandemic

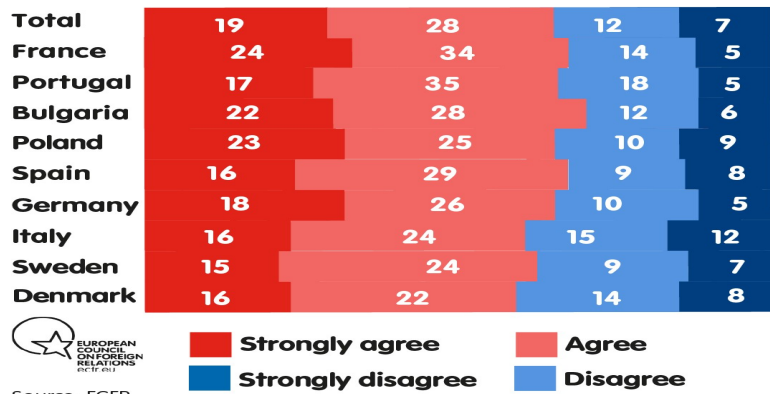


Figure 2 Perception of European citizens participating in the study on the relevance of the European Union (%)

Source: Krastev, I., Leonard, M., (2020), *Europe's pandemic politics: How the virus has changed the public's worldview*, available at

https://ecfr.eu/publication/europes_pandemic_politics_how_the_virus_has_changed_the_publics_worldview/

The health crisis caused by the new coronavirus has changed the perception of the importance of the European Union as a supranational body, the most dissatisfied with the actions of the European Union being the French (58% of respondents), Portuguese (52%) and Bulgarians (50%), followed closely of Poles and Spanish.

Regarding the perception of the citizens responding to the questionnaire on cooperation within the European Union in the context of the COVID 19 pandemic, the Portuguese, Spanish and Italians considered that closer cooperation was needed within the European Union, while the number of those considers that European integration has gone too far is significantly lower. In conclusion, the majority of respondents consider the European Union to be an efficient supranational structure, in which close cooperation between member countries is a very important element (Figure 3).

How has the coronavirus changed your attitudes towards the EU? (%)

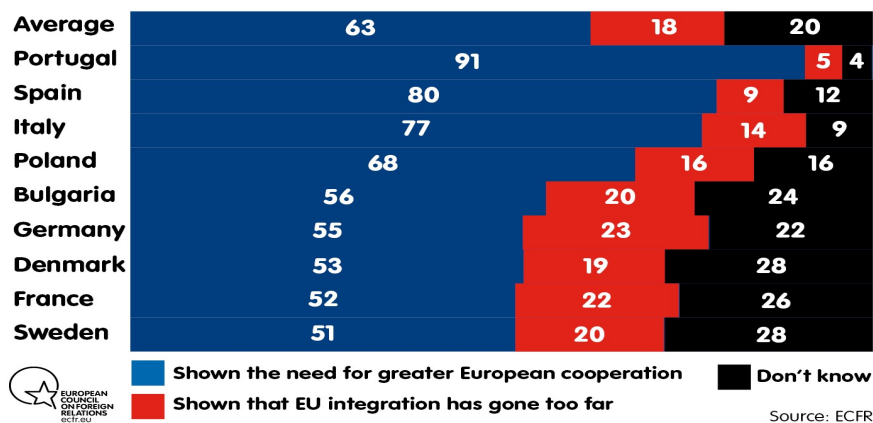


Figure 3 Perceptions of European citizens participating in the study on cooperation within the European Union in the context of the COVID 19 pandemic (%)

Source: Krastev, I., Leonard, M., (2020), *Europe's pandemic politics: How the virus has changed the public's worldview*, available at

https://ecfr.eu/publication/europes_pandemic_politics_how_the_virus_has_changed_the_publics_worldview/

Once the coronavirus crisis is over, how should things change in Europe?



Figure 4 Perceptions of European citizens participating in the study on future lines of action of the European Union (%)

Source: Krastev, I., Leonard, M., (2020), *Europe's pandemic politics: How the virus has changed the public's worldview*, available at

https://ecfr.eu/publication/europes_pandemic_politics_how_the_virus_has_changed_the_publics_worldview/

Next, the perception of the future lines of action of the European Union after overcoming the health crisis caused by the COVID 19 pandemic was analyzed. Thus, the study data show that 52% of respondents believe that the European Union should have a common answer, in more depth on global threats and challenges. Also, 48% of citizens participating in the study believe that the European Union should be more willing to share the financial burden in the event of a crisis, such as that caused by the new coronavirus, while 46% of them believe that should be an increased control over the external borders of the European Union. An important aspect refers to medical equipment, with 41% of participating citizens stating that companies should be encouraged to produce medical equipment within the European Union, even if this would involve higher costs (Figure 4).

The COVID 19 pandemic has caused an unprecedented health crisis in the last 100 years, and it is expected that this health crisis will generate a stronger financial crisis than in 2008. Basically, no country in the world has been prepared to face an unknown virus, whose effects are unpredictable on human health but predictable on the world economy as a whole. States have been put in a position to quickly adapt to an unprecedented crisis situation, which has had repercussions in all sectors of the economy.

As for the public system, it has been shaken by a number of negative effects of the health crisis, due to the fact that most states have not been prepared to quickly react, no special public procurement procedures have been developed in case of disasters, being allocated public funds for this area, but not always been used in accordance with the principles of efficiency, economy and effectiveness, affecting the performance in this sector. Thus, in order to prevent waste, the supreme audit institutions had to act quickly, performing a series of audits during the current financial year (real-time audits), given that most of them perform ex-post audit, according to international auditing standards.

Next, will be presented the particularly important role that supreme audit institutions play in managing the crisis caused by the COVID 19 pandemic, especially with regard to the use of public funds.

2. Supreme audit institutions and their role in managing the crisis caused by the COVID 19 pandemic

The role of supreme audit institutions in managing the crisis caused by the COVID 19 pandemic is crucial. They supported the national governments' response mechanisms and contributed to maintaining financial discipline, transparency and accountability in the use of public funds.

At the same time, the supreme audit institutions have sufficient tools for crisis management, tools provided by the international auditing standards developed by INTOSAI (International Organization of Supreme Audit Institutions). The ISSAI 5500 standard allows supreme audit institutions to respond decisively in times of crisis. This standard covers a wide range of considerations, from testing the government's preparedness to deal with disasters, to explicitly focusing on how supreme audit institutions respond to the increased risk of fraud and corruption during and after disasters. These risks occur especially in the area of public procurement, where there are many cases of inefficient use of public funds. Given the above, it is easy to see that the performance of public institutions is affected by these risks, and supreme audit institutions can counteract these negative effects through real-time audits. The ISSAI 5500 standard is being revised in INTOSAI's new IFPP standards framework [6].

In addition to the ISSAI 5500 standard, INTOSAI has quickly taken a position on the crisis caused by the COVID 19 pandemic, through one of its bodies, the SCEI (Surveillance Committee for Emerging Issues). This Committee (chaired by the Chamber of Accounts of the Russian Federation) provides recommendations on the main issues that INTOSAI is facing, as well as the supreme audit institutions at the individual level. Since the beginning of the COVID 19 pandemic, a number of meetings have been held at this structure to address the main issues related to pandemic audit, and a group of COVID 19 experts has been set up at the Committee level. A number of documents have also been developed addressing the priorities of supreme audit institutions in the context of the COVID 19 pandemic, including audit themes and effective audit methods [7].

Within EUROSAI (European Organization of Supreme Audit Institutions, part of INTOSAI), a Group was established for the Project '*Audit on the response to the COVID 19 pandemic*', which aims to exchange experience between the supreme audit institutions participating in the project, the main areas addressed being the audit of public procurement and the verification of compliance of internal control systems within the audited entities, in order to eliminate the risk of fraud and corruption in the use of public funds, especially in the health area. The public sector performance area has also been addressed in terms of performance audits on rapid responses to this crisis [10].

In addition to the measures taken at the level of professional public audit organizations, the supreme audit institutions have taken a number of measures regarding their work during the COVID 19 pandemic, which include real-time audits. Most supreme audit institutions perform ex-post audits, respectively after the end of the previous financial year. Considering the scale of the crisis caused by the new coronavirus pandemic and the fact that there is a risk that public procurement and internal control systems will be affected by fraud and corruption in the use of public resources, which affects the national budget and, implicitly the lives of the citizens, they had to adapt their activity to the new conditions, either by the possibility offered by their own organization and functioning law, respectively by modifying the annual activity program, or by audits requested by the Parliament, where there is no possibility provided in the law on the organization and operation of the institution concerned to carry out real-time audits.

For example, the Portuguese Court of Auditors has adapted its working conditions, through home working established for its employees. The institution also reviewed its annual work program as well as its strategic and operational plan [8].

The European Court of Auditors has also established home working for its employees. Other measures taken by this institution were aimed at revising the annual work program, so as to best respond to the new challenges in the context of the COVID 19 pandemic [9].

The Court of Audit of Slovenia has adapted its work program in the context of the pandemic, by increasing audits in the health area, focusing in particular on health system procurement [10].

The UK's National Audit Office has focused in particular on the government's response to the pandemic crisis with the new coronavirus, through a wide range of actions on health spending and general crisis response [11].

The Polish Court of Audit conducted audits on the readiness of public sector entities to face threats from epidemics. An audit on the fight against COVID 19 is also ongoing [12].

The Estonian National Audit Office carries out two analyzes related to the current situation generated by the new coronavirus pandemic. Emphasis is placed on the economic impact of crisis measures taken by the government and the effectiveness of state aid measures for companies [10].

As can be seen, each supreme audit institution at the national level has taken the measures it deems necessary to manage the crisis caused by the COVID 19 pandemic, some by reviewing the annual work programs, others by addressing issues new audits or by focusing on health audits, and others even by analyzing measures taken by national governments in the context of the crisis.

3. Proposals to address the external public audit in the context of the COVID 19 pandemic

Regarding the external public audit carried out by the supreme audit institutions, we could see that several approaches were identified, some related to the work program, others related to the government's responses to the crisis, and others based on focusing on certain areas, such as the audit of public health procurement.

Given that supreme audit institutions have an extremely important role to play in ensuring financial discipline in the public sector, by conducting audits and issuing recommendations but also measures to eliminate identified deficiencies, we consider that another approach to auditing in the area is needed to enable a rapid response to crises from public sector entities, thus contributing to their performance.

Systemic audit could allow a comprehensive approach at national level to the various existing systems within a public entity, such as the public procurement system, the internal control system, the payroll system, the human resources system, etc., by the supreme audit institutions.

In conducting this type of audit, we consider the approach of an entire system at the national level, in all public sector entities. In the context of the COVID 19 pandemic, which has generated massive health procurement, with risks of fraud and corruption in the use of public funds, a systemic audit of the national procurement system would be very effective. On the one hand, the main problems generated by procurement as a whole (for example, problems with internal procedures, legislation, delays, etc.) could be identified, as well as phenomena related to fraud and corruption in this area, generated by procurement overcharging, favoring suppliers, paying for goods and services that have not been executed or delivered, purchasing goods of questionable quality, all of which generate waste in public budgets, thus affecting the performance of the public sector and, implicitly, the lives of taxpayers and taxes.

Carrying out a systemic audit in the area of public procurement would be extremely beneficial for all entities in the public system, given that the problems affecting these systems can be identified for each entity, and there is a possibility to remedy them.

On the other hand, another advantage of systemic audit is that, by publishing its results, examples of good practice encountered by auditors within the audited entities can be presented, examples that could be taken over by other entities, in order to eliminate their own deficiencies.

Thirdly, based on the results of the systemic audit and as required, special procurement procedures for crisis situations can be developed to eliminate risks such as fraud and corruption.

As noted above, we can conclude that supreme audit institutions have an extremely important role in managing the crisis caused by the COVID 19 pandemic. The main role is to ensure financial discipline during the crisis by conducting real-time audits and by overseeing all processes involving public resources at the level of the administration.

The performance of public sector entities has been affected by the COVID 19 pandemic, by the fact that there have been no rapid and effective responses to combat the effects of the pandemic. Also, the fact that humanity has not faced such a health crisis recently, has affected the entire world economy, with consequences that will be seen soon.

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