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THE INTRODUCTION OF “EX-ANTE” AUDIT IN GREEK MUNICIPALITIES: LEADERS OF NON-COMPLIANCE?

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Abstract

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Although European countries have already ceased the traditional type of audit, Greece still exercises an “a priori” audit in the expenses of public organisations. The “ex-ante” audit in Greece has a long tradition with the exemption of local government for which this type was established relatively recently, namely in 2005. This paper aims to illustrate the results from the first period of implementation of ex-ante audit in the municipalities. The research was conducted with the statistical analysis of Annual Reports of the Hellenic Court of Audit and questionnaires distributed to the auditors of the Court and the executives of audited entities and led to the conclusion that the introduction of ex-ante audit in the local government illustrated serious problems in their financial management.

Keywords: Ex-Ante Audit, Local Government, Compliance, Hellenic Court of Audit

1. INTRODUCTION

In the public sector external audit is conducted on public entities by the independent Supreme Audit Institution (S.A.I.) of each country. The term SAI “means such public body of a state or supranational organization which, however designated, constituted or organized, exercises, by virtue of law, or other formal action of the state or the supranational organization, the highest public auditing function of that state or supranational organization in an independent manner, with or without jurisdictional competence” (International Organization of Supreme Audit Institutions - INTOSAI, Statutes, 2007, article 2, §2).

Public expenditure in a democratic society should rely on an effective financial management and control system. “SAIs contribute decisively to the quality and effectiveness of democratic legitimisation of public expenditure. They thereby help the executive to make the best possible use of public funds, in other words, to ensure that the political objectives of the expenditure are achieved at a minimum cost and that the accounts drawn up are transparent. Furthermore, the publication of audit findings enables citizens to become familiar with and to legitimise the actions of their government and representatives” (Vallés, 2005, Foreword, p.xi).

The SAIs are external audit services and do not constitute part of the organisational structure of the audited entities (ISSAI 1, section 3, § 1). Their legal mandates, reporting relationships and effectiveness vary, reflecting different governance systems and government policies (Stapenhurst & Titsworth, 2001).

The traditional task of SAIs is to audit the legality and regularity of financial management and of accounting. The examination of compliance with budgetary laws and regulations (legality and regularity) is particularly important for government control programs because decision makers need to know if the laws and regulations followed are to have the desired results and if not, what the necessary revisions to be made are (INTOSAI-Code of Ethics & Auditing Standards). In addition to the traditional audit of legality and regularity, which retains its significance, there is another equally important type of audit: performance audit oriented towards examining the performance, economy, efficiency and effectiveness (3 ‘E’) of public administration.

Santiso (2006) mentions that key variations between agencies include the timing of control (whether ex-ante or ex-post control), its nature (whether emphasising compliance or performance auditing), its effects (the follow-up of audit recommendations), as well as its status (the legal standing of audit rulings).

As far as the timing of control by SAIs is concerned, it is divided into preventive (or ex-ante or a priori: is a kind of review of administrative or financial activities before the event) and post-audit (or ex-post: is the audit taking place after the event) (ISSAI 1, section 2). The task of pre-audit involves the authorising of public expenditure. Typically the control body receives all payment orders and supporting documentation, checks that the transaction has been authorised, that it is legal and regular and that there is sufficient provision for it in the budget. It then either sanctions the payment or, where the transaction does not meet these criteria, returns it to the auditee for amendment (García Crespo, 2005, p.6). However, this system has been characterised as costly and inefficient. Cogliandro (2000) argues that a strict examination of the legality causes delays in the delivery of public services and weakens the responsibility of management.

According to International Standards for SAIs (ISSAIs), pre-audit by a Supreme Audit Institution has the advantage of being able to prevent damage before it occurs but has the disadvantage of creating an excessive amount of work and of blurring responsibilities under the public law. Yet, despite the undoubted usefulness of preventive control, there is nevertheless a tendency to minimise its scope and content (García Crespo, 2005). In 2005, only five of the 25 SAIs of the European Union conducted a priori audits (Belgium, Italy, Luxembourg, Greece and Portugal.) A form of high-level pre-audit is found in the United Kingdom and Ireland, where the Auditor General has a Comptroller function as he authorises the issuing of money from the Treasury to departments (García Crespo, 2005). The Italian SAI also examined a few thousand transactions a year. And, in Portugal, the SAI's a priori work dwindled.

Contrary to this trend, the Greek Court of Audit still audits in advance almost all expenditure of central government and public entities with the exception of municipalities which until recently have been excluded from the preventive audit of the HCA. It was as late as the year 2005, that the ex-ante audit also expanded to their financial management.

In addition, as the external auditor, the SAI has the task of examining the effectiveness of internal audit. In Greece, the task of internal auditing is assigned on the services of the State General Accounting Office and organized structures of internal audit do not exist within public organizations (although a relevant law has been passed for the creation of separate Internal Audit Departments within the public organizations in 2006, but has never been implemented widely in practice). Greek municipalities even nowadays are excluded from this rule and their expenses are sent directly to the services of Commissioners of HCA for review and visa. As a consequence, municipalities operate practically without organised internal control departments.

The HCA exercises the traditional preventive audit to all the transactions of public entities and this leads public managers to rely heavily on conducting an ex-ante audit of their expenditures by the Court. Moreover, HCA is still the only SAI in Europe limited to the legality and regularity of public expenditure as it had not been empowered to assess the performance of public policies until the

recent legislative reforms. All this turns Greece into a special case.

In the data included each year in the Annual Reports of the HCA, a plethora of repeated infringements of financial legislation by audited entities has been noted, and from the year 2005 onwards (year of introduction of a priori audit), the majority of findings refers to the financial management of municipalities. Therefore, it is of special interest to demonstrate the results of this reform in local government in order to ascertain to which extent the "a priori" audit detects deviations from compliance with budgetary laws and regulations and if the evidence of compliance by audited entities are improved after the introduction of the preventive audit.

The paper is structured into five sections: the following section presents the literature review concerning public auditing and previous research in the field. Moreover, there is a short presentation of various types of audits and organisational division in Greece. The third section describes the research methodology and the design of both objective and subjective indicators used in this survey. The results of the statistical analysis are found in section four. Finally, the fifth section summarises the basic conclusions drawn from the research.

2. LITERATURE REVIEW

2.1. Public auditing & SAIs

Although the concept of accountability has been a "cornerstone" of the public administration over the years, there is, however, precious little focus on Audit Institutions (Posner, 2011). Generally, in most countries, research of governmental accounting, financial reporting, budgeting and auditing was not the mainstream, as few researchers show interest in this (Lüder, 2002), while Pallot (1992) mentioned that the theoretical framework of public sector accounting was largely undeveloped. Davidson (1993, pp. 375-377) claimed that "research in the field of audit and especially the research for compliance, enjoys a relatively recent development".

Churchill & Cooper (1965) argued that control may affect behaviour in two ways: 1) through audit reports and 2) through actions of the auditor, while Churchill & Tietlebaum (1967) claimed that the audit is an instrument of management control.

According to Zimmerman (1977), voters want to know if officials act according to some rules, while Wallace (1986) believes that the importance of the role of audit in the public sector lies not only at strengthening control systems and improving management but also at enhancing the degree of compliance with laws and regulations.

Barefield (1975) simulated the auditory environment in his laboratory research. According to the author, the control has a corrective, preventive and communicative character that could lead to a change in the behavior of the auditee. Barefield posits that the role of the auditor is to take an entity from a state of non-compliance to a state of compliance. In other words, the audit is a vehicle for behavioural changes.

Baskin (1986) looked at the audit function in the governmental sector and saw in the audit a

monitoring device used to evaluate and condense information, besides being an instrument for improving the accounting system and the financial management. When auditors evaluate internal control and verify the accuracy of accounting numbers they function as a device to reduce noise and bias.

Hardiman et al. (1987) focused on management's assessment of the internal control system's adequacy. Many people thought that a lack of strong and effective controls have created opportunities for waste, misuse, and fraud in governmental units. By lessening these opportunities, that is by strengthening internal control, managers could make available more money for the programs intended by Congress.

Jones & Pendlebury (2000) report that theoretically all citizens are potential users of information provided by the public sector, as this is consistent with the principles of democracy.

Brannan (1989), examining the effect of the introduction of the Single Audit Act (1984) to the institutions receiving federal aid from the state budget in the USA, concluded that the new law actually improved evidence of compliance of public organisations in the USA.

Jakubowski (1995) found that state auditors reported in their findings more weaknesses in internal control systems than those of private auditing firms. He also states that governments of counties made very few changes in the structure of their internal control, unlike municipal leaders who have made significant progress. The research of Coe & Ellis (1991) confirming this view concludes that larger deviations from compliance with legislation are noticed in the financial management of the counties, in comparison with the management of municipalities.

Almutairi (2000) in a study similar to that of Brannan examined the degree of improvement of compliance of public bodies in Kuwait with the laws and regulations of financial management after the implementation of preventive audit in some of these organisms. According to the survey, the compliance of public bodies improved fairly to moderately with the introduction of the preventive audit, but not very much or to a great extent, according to estimates made by the auditors of these entities.

Schelker & Eichenberger (2010), in their research for Switzerland, conclude that the independent public audit institutions play an important role in political decision-making process. Ex-ante evaluation of the preliminary draft budget by an independent auditor improves transparency and reduces information asymmetry. Furthermore, the same research shows that auditors with an expanded mandate are more beneficial to the larger municipalities of Switzerland which faced more complex problems than those smaller in population, where the preferences of citizens are not so different from the decisions of political officials, and that is due to the stronger pressure that they may exercise on them. Authors highlighted the key role of auditors in reducing the asymmetry of information in political decision-making process and consequently propose the extension of the mandate of audit institutions to the auditing of the preliminary draft budget.

2.2. Different types of SAIs and audits

Different external audit models exist around the world. The three most common systems are: (a) Westminster (or Anglo-Saxon/Auditor General) model, (b) Judicial (or Court of Accounts/Napoleonic) model and (c) Board (or Collegiate) model.

Judicial systems traditionally concentrate on compliance with detailed rules and regulations to ensure that money has been properly spent. However, there is often less focus on wider financial management issues relating to the economy, efficiency and effectiveness of expenditure. The Court of Accounts has the competence to impose penalties where illegal transactions are found.

Westminster model has a strong focus on financial audit and on the value for money with which audited bodies have used their resources, with less emphasis on compliance with detailed legislation and regulations; (DFID, 2004). The focus in this model is much more on financial aspects than in the Napoleonic Model.

Board model is similar to the Westminster model, except for the internal structure of the audit institution. In practice, however, SAIs are unique hybrids which do not fit easily into the traditional model of separation of powers. They combine several elements of the different ideal models (Santiso, 2006).

Over the last years, SAIs have taken on new tasks and adopted new approaches to government auditing, which led to a fundamental alteration of the model of control in public finances. The rise of 'new public management' (hereafter NPM) was one of the most striking international trends in public administration. The new trend, proposes abandoning bureaucracy and adopting innovative practices applied in the private sector, namely that public organisations change their focus from procedures to the results of those procedures (Hood, 1991). This trend inevitably affects the nature of the audit as well, in that it moves its focus from accountability and legality (traditional audit) to economy, efficiency and effectiveness. However, performance audit is not considered to be a "creation" of NPM (Barzelay, 1996, p.24, Pollitt et al., 1999, p.56).

The demands on SAIs have expanded to include considerations of how well government bodies perform their work, typically looking at the economy, efficiency, and effectiveness of service delivery. Citizens and their elected representatives increasingly demand that SAIs go beyond judgments of compliance and accuracy to also evaluate government performance and the value for money obtained through government transactions (Van Zyl et al., 2009). According to Morin (2011), the advent of performance audit has thus sparked a genuine "migration" for legislative auditors that had become accustomed to concentrating exclusively on the legality and regularity of transactions of the administrations.

According to International Standards, the SAIs audit objectives: legality, regularity, economy, efficiency and effectiveness of financial management, are basically of equal importance. However, it lies with each Supreme Audit Institution to determine its priorities on a case-by-case basis (ISSAIs). Yet, the full scope of governmental auditing

includes regularity and performance audit. However, a good audit of legality, either ex-ante or ex-post contributes to improving the management of public administration. Thus pre-audit usually has an important preventive effect (García Crespo 2005, p.7).

2.3. Reforming the external auditing system in Greece

The Supreme Audit Institution of Greece is the Hellenic Court of Audit (HCA), organised according to the Napoleonic model with jurisdictional competence. As a Court, the HCA focused traditionally on the compliance of public entities with detailed rules and regulations, as it was not empowered to assess the performance of public policies, being limited to the legality and regularity of public expenditure. Performance audits (economy, effectiveness and efficiency) escaped from the mandate of HCA until recently. However, these three last years a number of legislative reforms [eg: P.D. (presidential decree) 136/11, Laws (L.) 3871/10 & 4055/12] aims at modernising the existing mode of public expenditure control and its alignment with international standards.

The system of pre-audit on the legality and regularity of public expenditure has a long tradition in Greece, as it has typically been assigned to the Court of Audit since 1887. However, in the case of the financial management of local government, it was not applied until 2005.

The local government has been organised in Greece in two tiers. The structure of this organisation was reformed in recent years with the goal of making local government more efficient, effective, functional, responsible and more transparent both in terms of function and in terms of services to its citizens. The current administrative division of Greece was formed according to the program 'Kallikratis' and has been in force since 1/1/2011. According to this, the local authorities of the first and second tier were reformed demographically and spatially in larger geographical units by merging municipalities, communities and local prefectures and today the country is divided into 325 municipalities (first tier local government) and 13 regions (second tier local government) (Ministry of Interior, 2012). Before the reform in Greece, there were 914 municipalities and 120 communities. The number of municipalities was large in relation to the size (132,270 Km²) and the

population of the country (approximately 11 million inhabitants).

Initially, the Presidential Decree (P.D) 172/1997 subjected the three major municipalities of the country (Athens, Piraeus and Thessaloniki) to the preventive audit of the Hellenic Court of Audit, followed by the P.D. 133/2001 which included the municipalities of Heliopolis and Peristeri, while Law 3202/03 provided for the extension of preventive audit on public expenditure of all municipalities with a population of over 5,000 citizens, which eventually took place on 1/7/2005. This research focuses on the results of the first implementation of preventive audit in Greek municipalities while for further documentation of the research both primary and secondary data were used.

3. RESEARCH DESIGN

3.1. Quantitative (objective) indicator

In economic literature, the concept of compliance, in general, is measured in terms of the number or rates of deviant behaviours (e.g. crimes per capita, the number of road accidents in relation to the total population, etc.) (Levy,2002). Consequently, the rates of deviant activity of public entities identified by the ex-ante audit could constitute an objective (quantitative) index for measuring compliance. Objective data can be collected through standards, codes, treaties, and various administrative documents (Eurostat - UNDP, 2007). These results are summarised in the Annual Reports of the Hellenic Court of Audit, which is essentially a summary of its operation.

An analysis of the data of the Annual Reports of the HCA for years 1998-2009 (secondary data) shows that in the framework of exercising an expenses preventive audit, out of the payment orders (on average 1,495,271) of all financial management categories (Legal Entities of Public Law, Local Government Authorities, Special Accounts and Central government & Broader Public sector) submitted for audit to the competent Commissioners Departments of HCA, on average 8,891 payment orders are returned not-certified (due to violations, omissions etc.) to public entities for amendment and this number corresponds to 0.57% of the total number of payment orders annually submitted for preventive audit, as shown in Tables 1,2 and 3 below.

Table 1. Submitted payment orders per financial management category for the period 1998-2009

Year	Central Government	Legal Entities of Public Law	Special Accounts	Local Government	Total
1998	238,559	1,116,430*		26,013	1,381,002
1999	262,899	1,016,952*		35,434	1,315,285
2000	299,352	988,824	8,622	35,286	1,332,084
2001	322,833	884,797	5,283	33,220	1,246,133
2002	322,805	843,825	5,098	42,674	1,214,402
2003	344,786	834,955	8,857	38,669	1,227,267
2004	390,774	831,245	8,286	46,191	1,276,496
2005	380,910	200,553	7,554	364,468	953,485
2006	382,974	966,132	8,488	633,173	1,990,767
2007	505,730	952,839	8,392	565,011	2,031,972
2008	386,409	960,412	7,801	607,286	1,961,908
2009	412,202	979,970	2,336	617,937	2,012,445
Average	354,186	881,411	7,072	253,780	1,495,271

*For the years 1998 & 1999 there are only aggregated data for these two categories

Table 2. Non-certified (returned) payment orders per financial management category for the period 1998-2009

Year	Central Government	Legal Entities of Public Law	Special Accounts	Local Government	Total
1998	643	6,821*		431	7,895
1999	919	5,136*		317	6,372
2000	1,417	5,111	33	310	6,871
2001	1,093	4,718	36	184	6,031
2002	935	5,572	31	251	6,789
2003	1,087	5,275	51	456	6,869
2004	841	4,639	16	271	5,767
2005	1,076	1,338	24	5,372	7,810
2006	1,078	3,908	28	7,500	12,514
2007	696	4,662	14	7,486	12,858
2008	876	3,621	23	7,443	11,963
2009	1,898	5,776	9	7,264	14,947
Average	1,047	4,715	27	3,107	8,891

*For the years 1998 & 1999 there are only aggregated data for these two categories

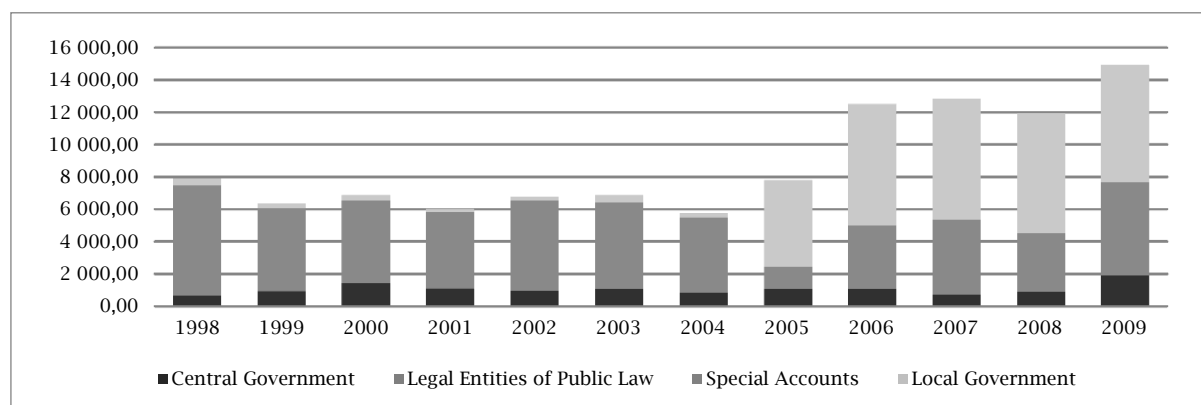
Table 3. Percentages of non-certified (returned) payment orders per financial management category for the period 1998-2009

Year	Central Government	Legal Entities of Public Law	Special Accounts	Local Government	Average per year
1998	0.270	0.611*		1.657	0.636
1999	0.350	0.505*		0.895	0.583
2000	0.473	0.517	0.383	0.879	0.563
2001	0.339	0.533	0.681	0.554	0.527
2002	0.290	0.660	0.608	0.588	0.537
2003	0.315	0.632	0.576	1.179	0.676
2004	0.215	0.558	0.193	0.587	0.388
2005	0.282	0.667	0.318	1.474	0.685
2006	0.281	0.404	0.330	1.185	0.550
2007	0.138	0.489	0.167	1.325	0.530
2008	0.227	0.377	0.295	1.226	0.531
2009	0.460	0.589	0.385	1.176	0.653
Average	0.303	0.543	0.394	1.060	0.571

*For the years 1998 & 1999 there are only aggregated data for these two categories

Therefore, bodies in Greece seem to comply to a percentage of 99.43% with the budgetary laws and regulations. Interest focuses on the extension of the preventive audit to 1st degree Local Government Authorities (LGA) as of 1/7/2005, as, from this year

onwards, more than half payment orders that are annually returned non-certified (of all financial management categories) refer to their financial management, as illustrated in Figure 1 below.

Figure 1. Non-certified (returned) payment orders per financial management category

Furthermore, we notice that: a) during the period 1998-2004 (before the extension of preventive audit to LGA) on average 317 payment orders were returned non-certified, while during the period 2005-2009 (after the introduction of preventive audit) the average rises to 7,013 payment orders, marking an increase of 2,112.30% and b) before the extension of preventive audit to all municipalities over 5,000 citizens, payment orders corresponding to 0.9% of the total number of

payment orders of local government authorities submitted were returned not-certified, while after 2005, the respective average was 1.27% marking an increase of 0.4% as to the detection of violations, omissions etc. in L.G.A. financial management.

As regards the non-certified payment orders of local government authorities' financial management, this amounts on average to 0.011. This means that preventive audit on the part of L.G.A. expenses seems to be detecting violations, omissions etc. on

average, of 1.06% on the total number of payment orders submitted for audit (almost double compared to other categories) while, respectively, the compliance rate of local government authorities with the budgetary laws and regulations is 98.94% (half a point less compared to the rates of other categories).

Therefore, taking into consideration the quantitative index, public bodies in Greece seem to comply in a percentage of about 99%. Yet, does this image reflect reality or could it be that part of non-legal expenses escapes ex-ante audit?

3.2. Subjective indicator (estimation) & Sample

For a more thorough documentation of the survey and in order to answer the above question a questionnaire was formed (source data) and it was distributed to the two basic categories of employees involved with the audit procedure: auditors and audited bodies. In total 138 people participated in the survey, of which 53 were auditors of the Hellenic Court of Auditors (38.4%) and 85 executives (financial sector) of the audited bodies (61.6%), from the entire spectrum of the Public sector (Legal Entities of Public Law, Local Government Authorities and Central Government & Broader Public Sector Entities). These two categories of employees (auditors and executives) were selected as they are directly involved with the auditing procedure.

Given that bibliography does not include a generally acceptable measuring index for compliance of public organizations with budgetary laws and regulation – besides, this is not a quantitative, but a qualitative variable that is not easily measurable – participants of both categories were asked to score, based on their personal estimate, the compliance of public entities in Greece on a 1 (no compliance) to 10 (excellent compliance) scale, thus creating a subjective measuring index.

Objective data is desirable because it is reproducible and more difficult to dismiss than “mere opinion”. Although objective data, such as indexes that are based on measurable input and output, are desirable, given that they may be reproduced and more difficult to dismiss than “mere opinion”, they have the major drawback that they are often of poor quality or are not always available. However, ‘lack of relevant data, has made many organisations measure concepts relevant to public administration and governance based mainly on subjective data (estimates)’. On the other hand, subjective data rely on perceptions of people (United Nations, DESA, 2007, p.13). Furthermore, in

“Governance III”, Kaufmann finds that when comparing a single objective indicator to the aggregated subjective one which best corresponds to it, the authors surprisingly find that the implied standard deviation of measurement of error in the objective indicator is much higher than the standard deviation of the subjective one (Kaufmann et al., 2003). These results ‘provide yet another imperative reason for adopting subjective indexes (estimates) in surveys related to public administration and governance issues, although it is important that they are based on a spectrum of measures that is as wide as possible, in order to assess governance’ (United Nations, DESA, 2007, p.13).

4. RESULTS & DISCUSSION

As shown in Table 4 below, the survey showed that sample participants (auditors & audited parties) estimate that compliance of bodies with budgetary laws and regulations in Greece is just about above average (average grade: 5.49), an opinion different to the findings of Annual Reports of the Hellenic Court of Audit (which show very high rates of compliance of audited entities). Therefore, we find a deviation between the subjective and the objective index.

Table 4. Estimations of compliance of public entities in Greece with budgetary laws and regulations

<i>To what extent do you think that Public organisations in Greece comply with the general rules of financial management?</i>	<i>Scale 1-10</i>
Average grade	5.49
Standard Deviation	1.697
Min.	1
Max.	9

In Table 5 below, we noticed that the smallest value, based on the score given by participants was 1 (no compliance) and the largest value was 9 (with 10 being excellent), something that demonstrates the diversity of opinions depending on the experiences of each employee in their working life and the body where they are employed.

Next, an ANOVA was carried out to determine the existence of a potential difference between employees' opinions per category of audited body. Although an ANOVA test, under certain conditions, can provide safe results even if the compared samples do not follow a normal distribution ($n < 30$), the relevant non-parametric test (Kruskal-Wallis H - test) conducted confirms the findings.

Table 5. Descriptive statistics (compliance per public entity's category)

<i>To what extent do you think that Public organisations in Greece comply with the general rules of financial management?</i>								
<i>Executives of audited entities</i>	<i>N</i>	<i>Mean</i>	<i>Std. Deviation</i>	<i>Std. Error</i>	<i>95% Confidence Interval for Mean</i>		<i>Min</i>	<i>Max</i>
					<i>Lower Bound</i>	<i>Upper Bound</i>		
Legal Entities of Public Law	21	6.62	1.431	.312	5.97	7.27	3	9
LGA (A, B tier) & legal persons thereof	21	5.24	1.814	.396	4.41	6.06	1	8
Central Government/ Broader public sector	43	5.84	1.838	.280	5.27	6.40	1	9

Table 6. One Way - Anova (compliance per public entity's category)

<i>To what extent do you think that Public organisations in Greece comply with the general rules of financial management?</i>					
	<i>Sum of Squares</i>	<i>df</i>	<i>Mean Square</i>	<i>F</i>	<i>Sig.</i>
Between Groups	20.201	2	10.101	3.331	.041
Within Groups	248.622	82	3.032		

The descriptive statistics of Table 5 above show that the highest degree of compliance with budgetary laws and regulations (estimation) is given by Legal Entities of Public law executives (mean: 6.62) followed by the employees in the State and broader public sector (mean: 5.84) and finally the lowest estimation is given by the employees of local government authorities (mean: 5.24) . Indeed, this difference among the views of employees of public entities is proven statistically significant (p-value: .041 < 0.05), as shown in Table 6.

Furthermore, the lowest score of compliance given by employees in Legal Entities of Public law is 3 and the highest 9 respectively, while the lowest rate given by employees of Central government and Broader Public Sector is 1 (which is the lowest possible score) and the highest 9. The range for employees in municipalities fluctuates from 1 - the lowest score - to 8, the highest.

This last estimate, that municipalities have the lowest degree of compliance compared with the other categories of financial management, conforms to the findings of the statistical analysis of the data of the Annual Reports of the Hellenic Court of Audit for the years 1998-2009, where it is found that the majority of violations, omissions etc. after 2005 are detected in the financial management of local government authorities.

It seems therefore that both primary and secondary data highlight a problem concerning compliance of local authorities in Greece, at least compared with the other financial management categories. This fact is partly due to the absence of internal control services in Greek municipalities. However, financial management in local governments seems to be a common area of concern across the world.

The examination of a state audit of local government in Israel showed that state audit of local government is characterised by the traditional emphasis on administration, finances, and regularity with little reference to program evaluation. Examination of internal audit frameworks in local government shows a series of material shortcomings in this area and furthermore, in many local governments and bodies, internal audit simply does not exist (Friedberg, 1999).

In contrast, similar surveys of Jakubowski (1995) and Coe & Ellis (1991) in the USA, concluded that municipal authorities seem to comply more and have significant improvement as regards recommendations of the external audit, in comparison to county governances, in the financial management of which more unfit actions and weaknesses are detected.

Several surveys in Sweden showed that the compliance of municipalities with accounting standards and legislation, in general, was poor (Tagesson & Eriksson, 2006).

A recent study in Canada examined the amendment of *Ontario Municipal Act* which among other things, required that municipalities adopt a number of mandatory provisions relating to accountability and transparency. Local governments were also asked to consider a number of voluntary measures. The findings suggest that, in general, Ontario municipalities tended to react negatively to the mandatory and optional policy changes (Alcantara et al., 2012).

In South Africa the auditor-general claims that a lack of "committed" leadership lies behind a sharp deterioration in financial management in

municipalities for the 2011-12 financial year, as well as clean audits, have remained at the low level of 5% for the past three years, and the overall audit outcomes regressed (Stone, 2013).

However, due to different types of SAIs, various types of audit, diverse governance systems and governmental policies among countries, it is difficult to draw reliable conclusions because of the lack of homogeneity as well as of a common base.

5. SUMMARY AND CONCLUSIONS

During the last three years a number of legislative reforms have taken place in Greece, and it is included in the effort of restricting ex-ante audit and of modernization of the existing manner of audit of public expenses, which is imposed both by the imperatives of international standards, and by the increasing need for transparency and accountability, particularly in view of the current financial crisis.

Although the a priori audit of expenses of the public sector in Greece has been in existence for over a century, in local government it became mandatory only as of 2005 onwards. In this study, an attempt has been made to record results of this first implementation, through comparing source and secondary data. Both the statistical analysis of the data of the annual reports of the H.C.A. for the years 1998-2009 and the processing of questionnaires distributed to auditors and executives of audited bodies, reached the same conclusion and recorded significant weaknesses in the financial administration of Local Government Authorities. Specifically, based on secondary data, municipalities show the highest rates of deviation from the legislation of financial management, compared to other categories, since more than half the findings refer to such financial management. Moreover, as results from the questionnaires, local government authorities' employees themselves have a similar feeling as they assess that they have the lowest rate of compliance with budgetary laws and regulations when compared to other employees of the public sector. The total absence of internal control structures in Greek municipalities seems that plays an important role towards this situation.

However, on the other hand, one might say that this result is partly expected since the first implementation period of a reform usually requires a transitional adjustment period.

Although questions remain as to the effectiveness of ex-ante audit of expenses on public organisations in Greece, undoubtedly, its inclusion in the financial management of municipalities as of 2005 onwards, highlights a problematic situation, which makes them clear "leaders" of non-compliance. Whether this fact is due to the first implementation period of the reform or has other, deeper causes, it is a matter to be answered by future surveys.

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