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The Role of Public Managers in Achieving Compliance in the Light of the Economic Crisis: Evidence from Greece

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Abstract The present paper investigates the role of management of public entities in Greece concerning the achievement of compliance with budgetary laws and regulations as well as with the recommendations of external audit. In the last three-year period, the reconstruction of the wider financial management system has been attempted via a line of legislative reforms. The research was carried out with the distribution of questionnaires to the administrative executives of entities and the auditors of Hellenic Court of Audit and it led to the conclusion that the two parties conceive the role of management differently, to a certain extent. They agree, however, in the reformation of the system of external audit and its alignment with the requirements of international standards.

Keywords Public Managers, Compliance, Hellenic Court of Auditors, Ex-ante Audit

1. Introduction

The governmental accounting plays an important role with regard to the follow-up, the control and the discipline of public finances for which a useful accountancy of public sector is required so that the objectives of public managers can be achieved [1].

Paradoxically, however, in most countries, research in this field is not the mainstream and few researchers show interest in this [2], while Davidson [3] reports that the research in the sector of auditing and specifically the research for the control of compliance, enjoys a relatively recent development.

The examination of compliance with budgetary laws and regulations (legality and regularity) is particularly important for the governmental control of programs, because decision-makers need to know if the legislative and lawful provisions followed are going to have the desirable results and, if not, which essential revisions should be made.

The audit of the legality and the regularity of financial management and that of the accounting of public entities is a traditional task of Supreme Audit Institutions (S.A.Is). The SAIs are external audit services and do not constitute part of the organizational structure of the audited entities. The main objective of the traditional audit is to keep the entities and individuals accountable for the transactions they have managed and for the compliance with applicable standards.

In the traditional shape of financial organization, the manager decides on the allocation of public funds and the financial controller exercises an a priori (ex-ante) audit on the manager's acts and also has the authority to block their execution if he considers there has been a deviation from the legislation. But in this case, there are no further consequences for the manager.

Furthermore, pre-audit by a Supreme Audit Institution has the advantage of being able to prevent damage before it occurs, but it has the disadvantage of blurring responsibilities under public law. For this reason, many Supreme Audit Institutions gradually abandoned the traditional system of financial control and moved to more contemporary methods of control (performance audits).

This traditional form of financial organization existed in European communities before the 2002 reform, but was criticized and abandoned because, in essence, it rendered the public manager free of liability as he acted according to the judgment of the auditor. Instead, it was considered proper to hold the public manager wholly responsible for his actions, not allowing him to rest on subsequent audits [4].

Besides, according to the International Auditing Standards, establishing an effective system of internal control to ensure compliance with laws and regulations is one of the responsibilities of management [5]. In the new financial governance, the financial controller considers, a posteriori, whether the internal control existing system operates appropriately and produces the expected results.

However, in Greece, the traditional form still exists today and the examination of compliance of public entities with budgetary laws and regulations constitutes a mandate of the Hellenic Court of Audit (HCA), which is the supreme audit institution of the country. The Court exercises a priori audit to all the transactions of public managers and this leads managers to rely heavily on conducting preventive (ex-ante) audit of their expenditures by the Court and not to create the appropriate infrastructure and internal control systems in their organizations. The HCA, until the recent legislative reforms exercised only the traditional type of audit, as it was not empowered to assess the performance of public policies, because it was limited to the legality and regularity of public expenditure.

2. Literature Review

In the bibliography, the role of management and the audit are two concepts that are closely intertwined. Churchill and Tietlebaum [6], report that the audit constitutes a means of control over the administration (management control). In the enterprises, the control generally serves the purpose of reminding to the managers the expectations of their superiors .This leads to greater correlation between the actions of the managers and the objectives of their superiors: the managers shall do with the prospect of reward or threat of punishment on the basis of the audit results.

The same thing happens in the public sector, though. Zimmerman [7] argued that voters want to know if officials act according to certain rules. His research concluded that the scheme of council-manager in the local government, led to more and more detailed audit reports, as well as claims that the manager provides the Board with detailed accounts in order to show that he acts within the limits set by the board. In addition, the board had a greater incentive to closely monitor the actions of the manager.

Wallace [8] believes the role of audit in the public sector is to improve the management, as well as the degree of its compliance with laws and regulations. Brown and Copeland [9] report that managers are responsible for ensuring the compliance of the economic role of the entity as well as creating the necessary infrastructure so that the processes and activities of their departments satisfy these requirements. The primary responsibility for action to be taken on the recommendations and findings of the review lies with the management.

Hardiman et al. [10] focused on the responsibility of the management to create an effective internal control system. It is a common perception that the lack of strong and effective controls creates opportunities for waste, mismanagement and corruption in public institutions. By reducing these opportunities through strengthening internal control, the managers will have more money from the state budget at their disposal.

According to Brannan [11], in the public sector, audit functions as a reminder of the expectations of the Parliament and government officials to commanders. The punishment can occur either through loss of funds, or in the form of the weakness that can be exploited by political opponents. However, research regarding the factors influencing compliance resulted in a paradoxical conclusion: the actions of the auditor and the acts of management are not shown to have a statistically significant effect on the compliance.

Coates et al. [12] report that the managers of an organization are responsible for the broadening of knowledge and skills development of their subordinates so that the latter can carry out their duties. Brown and Copeland [9] argue that it is the management's responsibility to ensure that the internal controls (one of which is compliance with laws and regulations) operate normally, while Lynch [13] states that monitoring by the senior management is important to the success of budget execution.

As particularly important to literature is characterized the management's intent to comply. In the field of psychology several theories have been developed for understanding human behavior. In these theories, the central role is played by the person's intention to carry out a specific behavior. As a rule, the stronger the intention of practicing a behavior, the more likely it is that it will be executed [14]. Intention, according to OECD, is characterized as one of the three necessary conditions for compliance with laws and regulations [15].

Over time, various theoretical approaches concerning compliance in various scientific fields have been developed. However, two major theories have found scope in the field of international relations. The first is referred to as *"rationality or enforcement approach"* where the acting parties (individuals, organizations or states) are deemed as rational factors who weigh the costs and benefits of alternative behavior in decision- making. Therefore, compliance is a matter of choice. The acting party chooses whether to comply or not, based on calculations of cost / benefit [16].

The second theory, known as the "*management approach*" differs from the theory of rationality and is based on the idea that acting parties are generally willing to comply with international regulations and compliance rates relatively high. According to this approach, non-compliance can be involuntary, namely a product of limited abilities or unclear regulations and not the result of deliberate decision for breach of conditions [17-19].

Therefore, it is particularly interesting to examine the role of management in compliance of public entities, and even more so in the light of the current economic crisis in Greece which imposes an increasing need for transparency and accountability.

3. Methodology

To this end, a survey questionnaire was distributed to the two main categories of staff involved in the audit process: auditors and managers of the audited bodies. The survey involved 138 people in total, of which 53 auditors (38.4%) and 85 senior executives of controlled entities (61.6%), coming from the whole spectrum of the public sector (Legal Entities of Public Law, Local Government Authorities and Broader Public sector). These two categories of employees were chosen because 1) they are directly involved in the audit process and 2) to draw attention to any different aspects of the same issue.

In the questionnaire, suggestions were provided, to which participants were asked to complete their degree of agreement. These proposals corresponded to the analysis of factors that affect the basis of the literature on compliance of organizations, one of which is the role of management.

The participants' responses to these proposals were measured using a five-point Likert scale [20], which extended from absolute disagreement to absolute agreement (1-5, respectively). On Likert scales, scores for each statement are assigned usually from 1 to 5. The purpose of the Likert scale is to summarize the scores for each participant, and the purpose of the five-point scale is to measure different aspects of the same attitude.

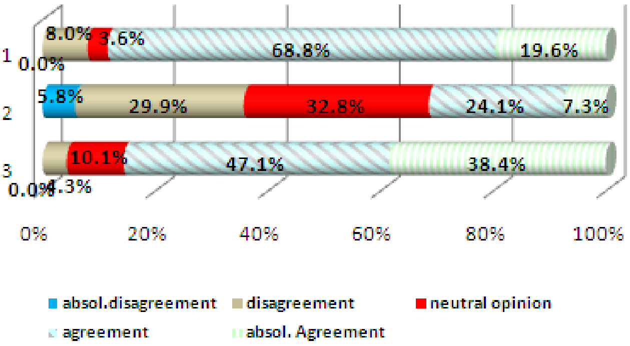
4. Results

The answers of the respondents are summarized in Table 1 and Graph 1 below:

Table 1. Role of management %

Opin.	Absol. disagreement%	Disagreement%	Neutr. opinion%	Agreement%	Absol.agreement%
1	-	8.0	3.6	68.8	19.6
2	5.8	29.9	32.8	24.1	7.3
3	-	4.3	10.1	47.1	38.4

A large percentage of the sample (about 89%) agrees with the opinion (1) that: "officers, eg: managers of the audited entity are responsible for ensuring and monitoring compliance with budgetary laws and regulations."
Just a relatively small proportion of respondents (about 31%) agrees with the opinion (2) that:"the administration is willing to accept the external audit of its compliance with legislation and financial management to comply with his instructions."
Finally, respondents agreeing with opinion (3) (85.5%) said that: "If the managers of public entities bore entirely the responsibility of their actions (financial and political) they would comply to a greater extent.



Graph 1. Role of management

Next, the possible differences in the responses of two groups (auditors and senior executives of audited entities) were tested regarding the management's intent to accept the external audit and comply with the laws of financial management. A t-test was carried out.

Table 2. Descriptive statistics

Categories	N*	Mean	Std. Deviation	Std. Error Mean
Auditors	53	2.64	.963	.132
Senior executive/managers	84	3.18	1.032	.113

*1 Missing

As shown by the descriptive statistics, in table 2, it seems that the team of auditors considers to a lesser degree (than the one to which the executives of audited entities do) that management is willing to accept the external audit of its compliance with budgetary legislation.

This view, however, is not shared equally by the executives of controlled entities, who perceive that they are willing to comply with the recommendations of the audit to a greater extent. Indeed, this diversity of views has proven statistically significant, as indicated by the t-test (p-value = 0.003 < 0.05) in table 3.

Table 3. T-test

	Levene's Test for Equality of Variances		t-test for Equality of Means						
	F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
								Lower	Upper
Equal variances assumed	.051	.822	-3.045	135	.003	-.537	.176	-.886	-.188
Equal variances not assumed			-3.093	116.374	.002	-.537	.174	-.881	-.193

5. Discussion

The above results show that both categories of respondents agree with the adoption of the more modern perception of control whereby management is responsible for establishing an effective system of internal controls to ensure compliance with laws and regulations, as described in the International Auditing Standards. More specifically, in the INTOSAI (International Organization of Supreme Audit Institutions) Code of Ethics and Auditing Standards, is stated that "in general, management is responsible for establishing an effective system of internal controls to ensure compliance with laws and regulations. The auditors should assess the internal control of the entity and to assess the risk if control structure could not prevent or detect non – compliance".

It seems, however, that a significant proportion of respondents (70%) did not agree with the view that the management is willing to accept the recommendations of external audit concerning the compliance with budgetary laws and regulations

However, a large percentage of respondents (85.5%) believe that if the managers bore the responsibility (financial and political) for their actions, they would comply to a greater extent than at present when they reportedly stay reassured by the controls that will follow, a view that embraces the contemporary philosophy of financial control and Cogliandro's [21] opinion who argues that a strict examination of the legality causes delays in the delivery of public services and weakens the responsibility of management. The result of the research is in contrast with the findings of Brannan [11] in which the acts of the management are not directly related to improving compliance. A paradoxal outcome, which even the author describes as non-expected, according to the theory.

These results raise a general issue regarding the modernization of the existing mode of audit in Greece and its harmonization with the standards applicable worldwide. Furthermore, the research highlights differing views between auditors and executives of controlled entities regarding the role of management. The different views of the two categories (which prove statistically significant) essentially reflect two different theoretical approaches to compliance. Specifically, the team of auditors believes that management generally does not intend to comply with the recommendations of the audit, embracing the *"enforcement or rationality approach",* according to which, non - compliance is a matter of choice of on the part of the entity after calculating the cost and benefits [16, 22]. The management, since it does not bear the responsibility for its actions, effectively eliminates the cost and passes on the burden of refusal to the auditor.

In contrast, the group of controlled entities considers that the management intends to comply with the instructions of control and seems to adopt the *"approach of management"* which argues that non-compliance may be involuntary and not due to intentional disobedience since entities intend to comply in general [17-19].

6. Conclusion

In the last three years, a series of legislative reforms relating to the external audit and the broader financial management system have taken place in Greece. These reforms have been dictated by the current economic crisis. To this direction, the managers of public organizations are asked to play an important role to enhance transparency, by taking the responsibility and the initiative to modernize the function of their organizations and improve their compliance with budgetary laws and regulations.

Auditors and managers alike agree that the administration should be responsible for the organization of an effective controlling system in order to prevent evidence of non-compliance. Hence arises a philosophy completely different from the one dominating the existing type of audit in Greece.

Both categories of respondents estimated that if management bore the ultimate responsibility for its actions, then it would comply to a greater degree with budgetary law, as the current system of preventive control of expenses appears to support this complacency, in that it shifts the responsibility of refusal to the external auditor.

Finally, the survey reflected a divergence of views between auditors and auditees regarding the intention of the management to comply with the recommendations of the audit. Whilst managers consider that they intend to comply, the auditors do not share this view. Therefore, the research confirms the importance of the role of management in achieving compliance with budgetary legislation, although there are different views regarding its intention to comply.

The attempted reforms to the legislative framework in Greece, move in the direction of limiting the preventive audit and the initiatives undertaken by governments, adopting practices of other countries which have already aligned with the standards applicable worldwide, though, in any case, the probability of success or failure of a reform, is influenced by and depends largely on how it is applied [23].

As Santiso [24] supports, important reforms and strategies based on radical reforms and institutional transplants of external models are likely to fail. It should therefore be taken into account that gradual changes based on partial adjustment are likely to achieve better and more sustainable results.

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