
CORPORATE GOVERNANCE & INTERNAL AUDIT AT GREEK MUNICIPAL ENTERPRISES IN THE COVID-19 ERA

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Abstract

Corporate governance ensures that companies have the necessary internal decision-making and control procedures to take into account — to the extent necessary — the interests of all stakeholders. The ultimate goal, however, is to create an environment and a sense of assurance that the stakeholders' confidence in the company is well-founded. The shareholders have to select the members of the board of directors and the auditors by which this will be accomplished, while the board of directors is responsible for implementing the appropriate level of corporate governance. Accordingly, during the COVID-19 period, corporate governance principles, especially internal control, should be applied in the public sector, particularly in municipalities and their municipal enterprises, to achieve democracy, transparency, accountability, confidence, satisfaction to citizens and employees, a better working environment, social and economic performance.

Municipalities in Greece have long developed and operated municipal enterprises (state-owned enterprises (SOE) from municipalities) with developmental, social, educational, cultural, and sporting objectives. The process of appointing their boards varies. In particular, the public benefit municipal company is managed by

a board of directors consisting of seven (7) up to eleven (11) members whose composition is defined in particular by the provisions of Art. 255 par. 1, etc. of the Municipal and Community Code (Law 3463/2006, Government Gazette A 114/8.6.2006, Ratification of the Code of Municipalities and Communities¹). Under the new provisions, with par. 1 of Art. 6 of Law 4623/2019, Government Gazette A 134², as it was replaced with par. 3 Art. 177 Law 4635/2019, Government Gazette A 167/30.10.2019³, it is defined that:

“Where the provisions of laws, presidential decrees and other regulatory acts provide for the appointment of members in the administration of the legal entities of municipalities and regions, as well as their liaisons, by a specific proportion, three-fifths of all members with their deputies, including the chairman of the board, are appointed by the mayor or the governor, respectively. The other members, excluding any members who are appointed ex officio or nominated by bodies, are appointed by the other factions by voting among themselves. In any case, the other factions participate in the councils with at least one (1) member in total... A deed of the relevant municipal or regional council is issued for the formation of the board of directors. In case for any reason the other factions do not appoint members, they are appointed by a decision of the Mayor or the Regional Governor, respectively, and the procedure is not introduced in the council”.

Furthermore, according to the provisions of Art. 266 par. 2 of the Municipal and Community Code (Law 3463/2006), municipal public limited companies (sole proprietorships) are managed by a board of directors, the members of which together with their deputies are appointed by the city council. According to the new regulation (Art. 6 par. 1 Law 4623/2019 as it was replaced with par. 3 Art. 177 Law 4635/2019), the city council shall form the board of directors of the relevant legal entity with a binding suggestion of its members (elected and citizens) by the mayor by 3/5 and by the other factions at 2/5. It is pointed out that the provision of Art. 6 of Law 4623/2019, as newer and more specific than the general provisions of the Code of Municipalities and Communities, prevails over other settings. As shown by the explanatory memorandum to the provision, the purpose of these provisions is to ensure, in any case, that the majority comes from the combination with which the Mayor was elected, so that the legal can be administered person and take decisions that reflect the popular mandate.

In this study, we examine the function and effect of corporate governance in municipal enterprises in Serres (Greece) during the COVID-19 pandemic, focusing on its role as part of internal control.

¹ <https://www.e-nomothesia.gr/autodioikese-demoi/n-3463-2006.html>

² <https://www.e-nomothesia.gr/autodioikese-demoi/nomos-4623-2019-phek-134a-9-8-2019.html>

³ <https://www.e-nomothesia.gr/kat-epikheireseis/nomos-4635-2019-phek-167a-30-10-2019-1.html>

We asked eleven Greek municipal executives a series of questions (in unstructured live interviews) (employees, finance directors, and elected officials).

The results show that especially during the COVID-19 pandemic municipal enterprises (state-owned enterprises (SOE) from municipalities) need to install digital applications to achieve maximum transparency. In particular, all decisions of the boards and the execution of the budget must be in public view so that citizens can monitor them on a public electronic platform. The boards, as they consist exclusively of elected officials and citizens, should be accompanied by a member with administrative experience to achieve better decisions. The fact that internal audit is performed by private audit firms has positive effects.

Officials of financial departments note that municipal enterprises must offer their full range of services electronically to be easily accessible to citizens remotely due to the COVID-19 pandemic. Elected officials, point out their difficulty in making the right decision on complex mainly financial issues without the suggestion of an expert on the subject.

Finally, potential extensions of this research could look at a wider sample of municipal executives (employees, finance directors, and elected officials) as well as specialists from private companies, which could include not only municipal enterprises from one region, but also municipal enterprises from multiple geographical areas across Greece, as well as municipal enterprises from different periods.

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