

FINANCIAL MANAGEMENT IN THE PUBLIC SECTOR

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Abstract

In the context of the financial management improvement, it has been given and will continue to be given priority to decentralization of responsibility management in public finance, through the provision of the right of use of Government Financial Informatics System (GFIS) to general governance institutions, concerning the process of executing their budget. Also the direct use of GFIS from those mentioned above is accompanied by the addition of internal controls in the procurement phase of public funds.

Monitoring of financial management in the public sector is important not only for affecting directly in the efficient and economic use of public funds, but it significantly affects in the establishment of a sustainable culture in the better use of public funds. The country is aspiring to be a European Union member and consequently increasing the financial management performance constitutes a continuing objective of all governments.

The legal framework and units and institutions that do monitoring of public financial management, are newly created, they continue their quest to grow and consolidate.

Keywords: Central Governance Unit (CGU), Local Governance Unit (LGU), Risk Management, Financial Management and Control, Monitoring, planned audits and realized audits

Introduction

One of the important achievements in the reform of public finances has been the institutionalization of Term Budget Framework (MTEF) as a tool for coordination of budget with general and sectional policies. However, technical improvements, within the planning and budgeting have faded in

recent years, due to the obvious impacts of external economic conditions, which have imposed changes in planning income and expenses. Public expenditure and liquidity management has become more transparent and efficient thanks to the implementation of the Government Financial Informatics System at the Ministry of Finance (GFIS). Using a modern approach to the Public Internal Financial Control (PIFC), filled it with a new legal framework for Financial Management and Control, Internal Audit and Public Financial Inspection, are vital to the perspective of the country's EU membership European and to increase transparency standards and responsibility in the public sector.

Historically, financial management and control has been interested in providing security that; budgetary funds are used only for the purposes provided by law and in accordance with the legal framework and regulations in force. This requirement will remain in the modern system of financial management and control, but managers at all levels will need to show that public funds are used efficiently and effectively. This requirement is known as "Managerial Responsibility". So financial management will be the responsibility of managers and is not a separate activity undertaken by a separate group of officers. These managerial responsibility requirements along with the focus on the line manager are fully compatible with the program based budgeting whether the objectives of the program are measurable and achievable. Thus a modern system of Financial Management relies entirely in program budget objectives. Decisions must be fully documented and the financial implications of these decisions should be clearly recorded and available for review by internal and external audit and third party, except when these decisions affect the safety elements.

Directors of public entities will have a direct responsibility for the use of budgetary resources at their disposal, to achieve the objectives of the public entity, taking into account the priorities of the government and must do so efficiently and effectively. This will affect not only the procedures of financial management and control, but also in managerial arrangements that apply within public entities, such as defining the responsibilities of managers at all levels and delegation of responsibilities.

Monitoring and analyses

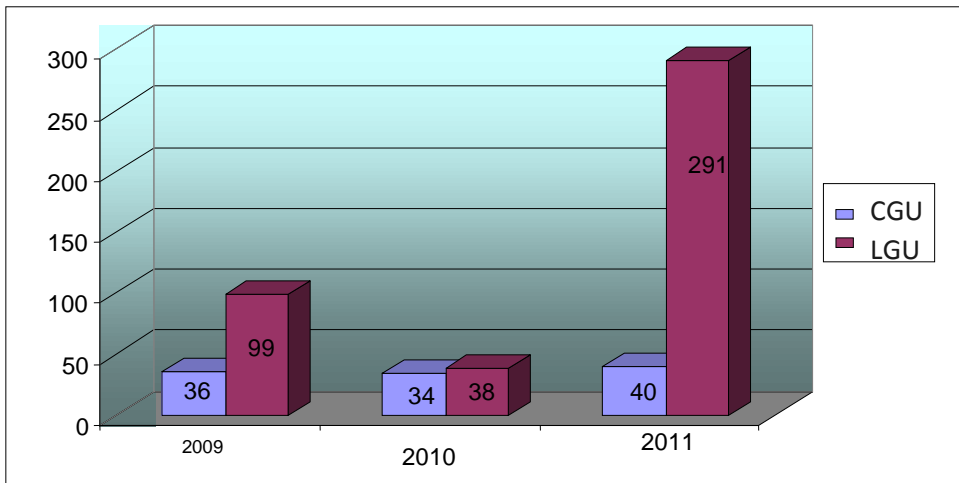
To analyze and study public financial management, we are supported on a questionnaire prepared and distributed for this purpose. Line ministries and central institutions have responded by completing it at 100 percent, while local government units, from 65 municipalities are responded 63, representing 97 percent; from 308 communes are responded 218, representing 71 per cent, while from 12 district councils, only two of them did not respond.

The data gathered from the questionnaire, were analyzed by descriptive manner. Based on the European orientation of the country have been also made approximations in many aspects of the activity of central and local government. In this context also includes the issues of the legal framework and financial management structures which represent an important process. As such, solutions have come year after year; therefore the treatments of this study will follow the chronology of development.

The processing of the data showed that, in 2010, from local government units, annual reports were submitted by 11 municipalities, 4 district councils and 23 communes, which represent respectively 16 percent, 33 percent and 7.5 percent. It shows their effort to increase the level of information and awareness on the importance of public entities of the principles of financial management and control, but in this regard remains else to be done. Despite this, the basic principles of financial management are understood by public entities but considerable work remains to be done in terms of explaining the new procedures in law enforcement Financial Management and Control.

Responses of Public Units to the questionnaire

Graph No. 1



Establishing a system of Financial Management and Control

Following the logic of the questions in the questionnaire the real situation is as follows:

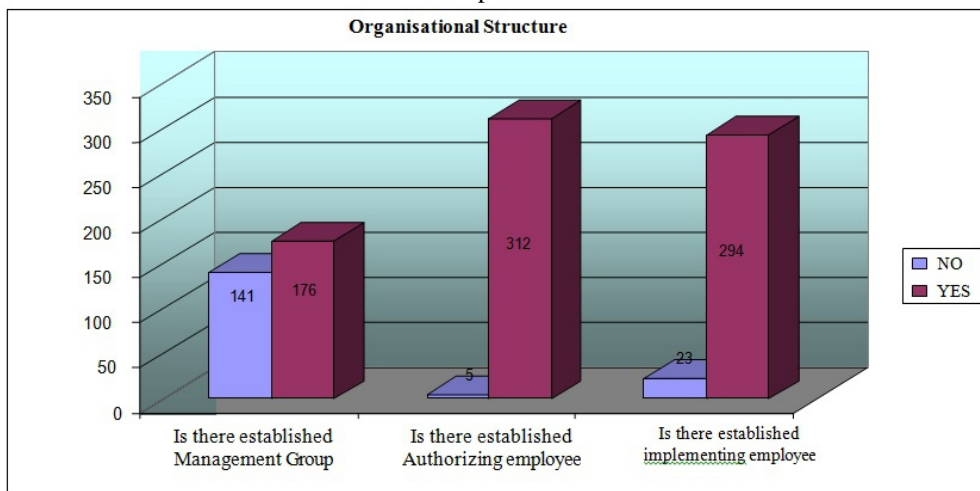
- Question A: Is Strategic Management Group created? 176 of the general government unit responded positively and 141 units have not created the group structure yet.
- While about the question A: Is assigned a Authorizing Officer (A

- O)? The results say that 312 units have the Authorizing Officer and 5 units have not yet assigned any Authorizing Officer.
- In addition to the above question: Is assigned a clerk Implementation (NZ)? 294 units respond positively affirming that they have fixed it and 22 units have not yet any NZ.

In addition to give you a more completed picture, the results of the above analysis can be presented in Graph No. 2.

Appointment of Authorized Officers, Employees Implementation and Strategic Management Group

GraphNo.2



In 2011, one of the main problems of the system consolidation is to specify control structures in accordance with internal control standards, in order to ensure that those tasks, hierarchy, lines of reporting and determining control activities are divided properly to ensure the long-term objectives.

We can express positive aspects to the authorizing officers, who generally are assigned according to the law.

The analysis performed shows that in the most part of public entities executing officer does not participate in the Strategic Management Group, so he is not on the same level as other managers in terms of decision making.

This proves the importance of this role is not yet properly understood. Even the dimension of human resources has identified problems.

The responses to the questionnaire indicate that in the role of the executive officer are not chosen high-level managers, but often finance sector chiefs / specialists, who report directly to their supervisor (Director of finance or budget) and the director of Finance? Budget reports to the general director.

Such a choice not only violates professional intellectualism required for this structure, but also violates the management of hierarchical competencies.

Based on the analysis of organizational structures, results that often the financial service sector is simply depending on a particular department and on a large scale units.

In this way, not only is realized the direct reporting to the authorizing officer from the executing officer, but the person who covers the role of the executive officer, does not fulfill the criteria set by law of Financial Management and Control.

The role of the program manager is confused and often seems like a procedural role rather than a positive role management, built to ensure that program objectives are achieved.

The creation of Strategic Management Groups

Based on responses results that Strategic Management Groups have been established in 60 percent of the institutions, in accordance with legal requirements. However they function mainly during (through) the planning process and it is not clear whether are or are becoming effective instruments of strategic management within public entities. Development of periodic meetings and reporting will improve the level of institutional communication and information as well. Strategic management groups should be helped to become more operationally effective but to be accomplished this requires a better approach in the decision making process.

Risk Management

Risk management is the process of identification, evaluation and monitoring of risks which the public entity faces in achieving its objectives and the process of necessary controls, to keep exposure to risk at an acceptable level for the institution.

Risk management is a new concept for the administration of our country which is still unconsolidated. In terms of normative acts, except the Law of Financial Management and Control, which lays the groundwork for the introduction of the concept of risk and documentation of procedures identifying and assessing risks, legal acts in the area of public financial management approved by the Ministry of Finance in early 2012, discuss the duties and responsibilities in this area. Risk management is a complex activity that summarizes certain elements as procedures, functional structure and design of risk strategy. Based on the importance that risk management takes in any governmental unit, all components of risk management are part of study participation.

Questions:

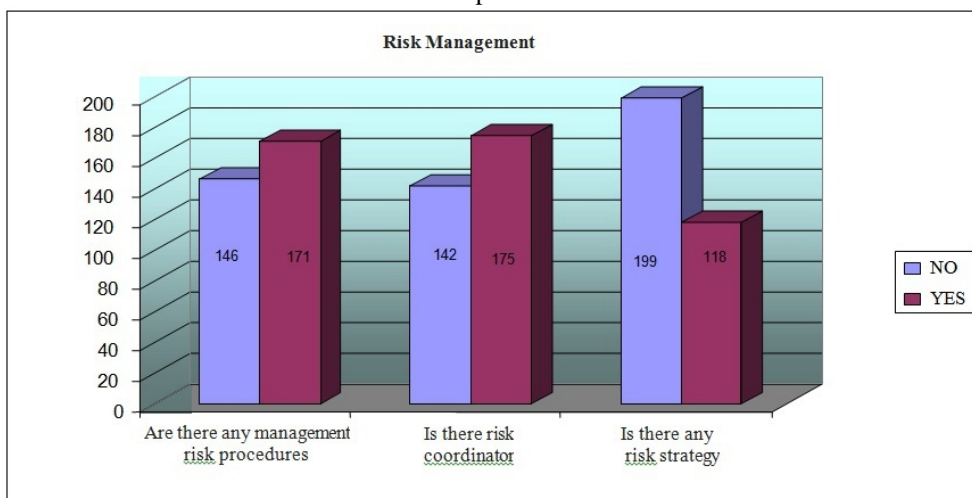
- Is there any risk management procedures?
- Is there assigned the coordinator of risk?
- Is there any risk strategy?

From the questionnaire responses of the general government units, noted that a significant part of public entities does not have risk management procedures. Their number will increase if the draft strategy risks will be analyzed that prevent the achievement of goals. The following graphic illustrates the data on the number of public entities that have certain risk coordinator. Responses that address government units for each of the elements of risk management that are in the survey questions are presented in Graph No. 3

From the analysis of Graph No. 3 related with risk management, results that the role of coordinator of risk is not properly understood and there are not yet assigned coordinators, especially in local government units, despite the Law on Financial Management and Control clearly stated that the Authorizing Officer Risk is the coordinator of the unit, which can also delegate this function. In practice it is noticed that the task of coordinating is assigned to the executing officer as the person who coordinates the budgeting process. On the other hand it have been noticed that have no written internal procedures to identify risks, but it is reported that they are subject to constant verbal discussion between the officials and staff assessment in order to minimize them and to achieve the fulfillment of objectives. We can conclude that there is no formalization of this process. The presence of a coordinator is important because it makes him act as 'proactive' and not just reactive.

Risk Management

Graph No.3



Control activities

Control, for its own content is an important feature, since it is measured through achievement, determined their qualities, etc. All these make the control a function that can't be achieved with a purely evaluation of sensory, in general it requires appropriate structures, monitoring, indicators, analysis, etc. These enable the control to identify problems related to the advancement or modification of objectives.

Control activities are the rules, procedures and actions aimed at reducing risks in order to achieve the objectives of the organization as well as to promote the implementation of the decisions of the head.

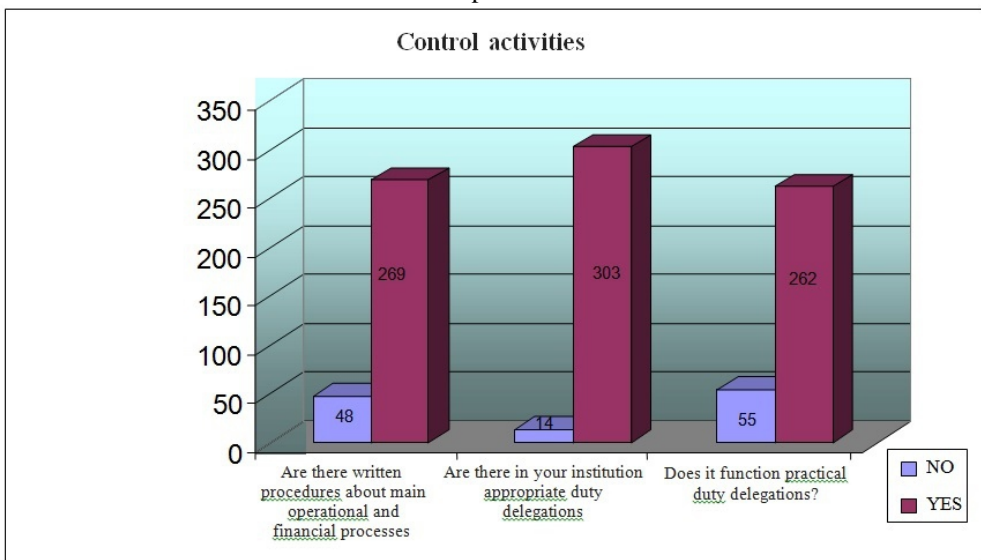
Questions

- Are there any written procedures for the key operational financial processes?
- Do you share duties in your institution?
- Does it work in reality the delegation of tasks?

Public entities claim to have fulfilled the minimum legal requirements and have implemented appropriate controls in the following areas existence of rules / guidelines for describing internal key operational and financial processes, separation of duties, delegation of tasks and responsibilities. The following chart shows the responses of units of the General Government.

Control activities

Graph No.4



Information and communication

The group of Components of the Internal Audit is related to information and communication issues. Communication is the exchange of useful information between persons and institutions to support decisions and coordinate activities. Information is the basis of communication needed to fulfill effectively the duties. The information must be communicated to the owner and other employees, at the proper time and form to assist them in fulfilling their responsibilities.

Questions

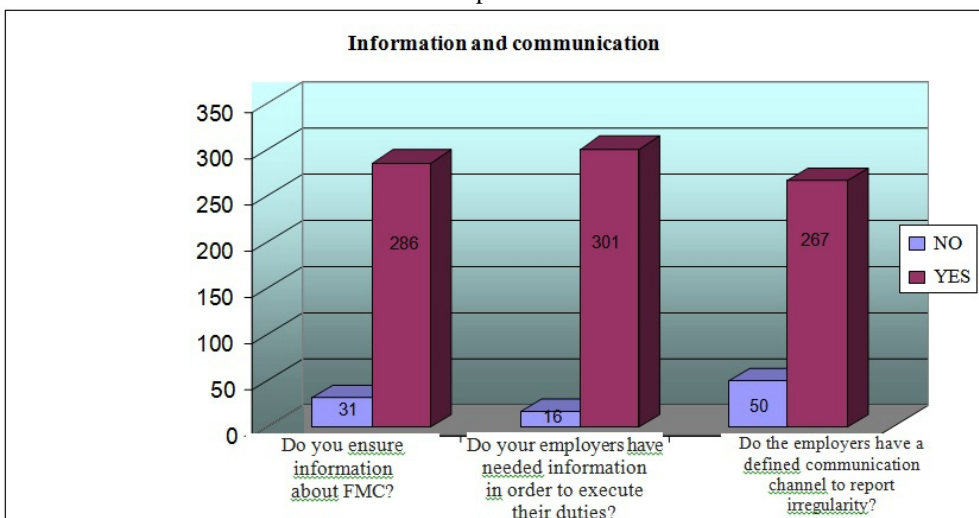
- Do you provide information to the Financial Management and Control?
- Do employees provide the proper information on the implementation of their tasks?
- Do employees have a defined communication channel for reporting irregularities?

From the responses of the units of the general government on specific issues such as making available information on Financial Management and Control, and necessary information to fulfill the duties, as well as the existence of communication channels for the irregularities, there are noticed positive aspects in this field.

But based on the analysis results there are not yet developed enough information systems in such a way as to provide the necessary information for the managers to enable them to assess whether or not the objectives and performance standards.

Making Information

GraphNo.5



Despite the above responses, the results of monitoring show us that the general public units have not yet developed a proper system of communication and information. This prevents daily work and managerial decision. Systematic monthly reporting on the activities of managers and general performance actually exists, (and as it turns out of their answers) but we can't accurately judge over the quality of the reports.

Systematic reporting is an essential requirement of accountability. Reporting should cover the achievements, performance standards, deficiencies and the usage of resources. Reports must recognize that the operating environment is dynamic and what might have been planned is not possible to achieve 100%, or vice versa: it can be achieved more. Managers should be fully aware of their responsibilities and what to report on these responsibilities.

Reports must recognize that the environment in which operates the general government units is dynamic and this significantly affects the degree of realization or exceeding targets. This highlights the responsibility of the manager to the reporting process. The reporting system has to do with vision and should be driven by international estimable practice called 'The Balanced Scorecard' based on four perspectives, namely:

- Financial Perspective,
- The perspective of the of delivery,
- Organizational Processes,
- Continuous learning and renewal.

Monitoring

Monitoring is the set of processes that review the activities of the institution, which aims to provide reasonable assurance that control activities operate under the purpose for which they were created and remain efficient over time. The system and its components can be evaluated through a special monitoring process or through a separate system of assessments.

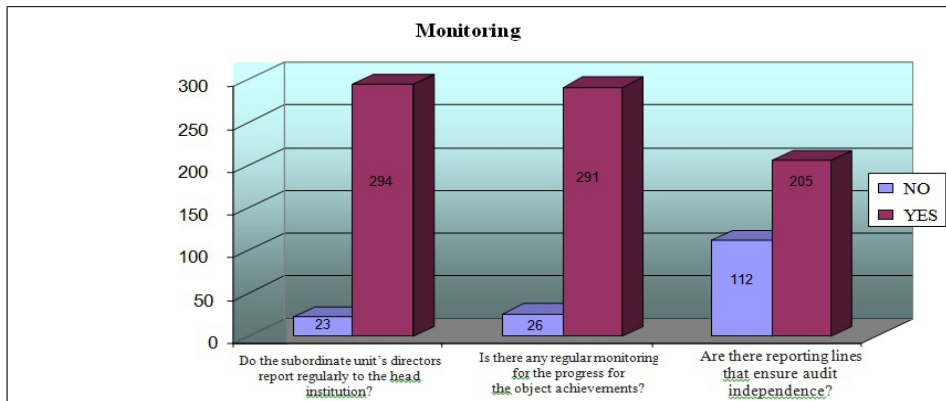
Questionnaires focus has been on three areas, namely:

- Reporting of dependency unit to the head,
- Monitoring progress and,
- Reporting lines to ensure the independence of internal audit.

As we can see from the graph No. 6, public units are generally expressed very positive for the first two requirements and good for the third request. As for the third request still remains to be done (improve) after the surveillance of 317 units only 205 of them have reporting lines to ensure the independence of internal audit.

Monitoring

Graph No.6



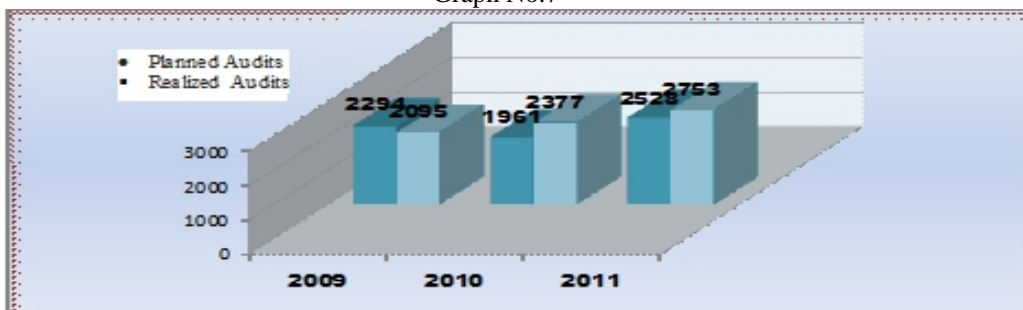
From the analysis we consider that the frequency and method of reporting or monitoring should be improved and we do not have to be focused only on traditional financial reporting, but also on performance. As for the ensuring of the independence of the audit function, we can say that despite progress, still remains to be done in this direction.

Analysis of the implementation of audit programs

Audit commitments have been increased from year to year. This increase is observed both in planning of the subjects to be audited as well as in the number of commitments realized. This growth is evidenced also in extensive and intensive terms. So is noticed the planning of an increasing number of subjects to be audited by one hand and an increase in the number of engagements performed. Internal audit structures have realized 2753 out of 2528 audit engagements scheduled, expressed as a percentage represents 109 percent of the annual plan. Increasing of number of the realized commitments is noticed from the audits performed during the years 2009 and 2010.

Implementation of Audit Plan

Graph No.7



Graph No. 7 shows the trend of performance audits for 2011 versus total audits planned to be performed during this period, as well as the performance trend of audit programs compared to last two years. From the data presented shows that during the years 2010 and 2011, there is a surpassing of the performance of audits from 2009 where audit commitments are performed at lower than were planned to be. Increasing number of commitments undertaken, as well as against the plan from year to year, is a positive indicator for the audit, which testifies to the addition of the audit work, better use of capacity and stocks that audit units, and increasing their volatility.

Recommendations

1. Awareness of managers on the necessity of information and reporting through improved methodology and seminars within international assistance.
2. Increase the independence of audit officers and audit capacity.
3. Increasing transparency in fiscal management process through community engagement, interaction and interactive collaboration among all stakeholders.
4. Forecast calculation and risk management in order to affect the permanent objective to reduce the maximum trailer. For this it is necessary that the attention of the heads and managers of public entities to address this issue with more focused attention.
5. Improving the system of public expenditure management through:
 - Institutionalizing the Medium Term Budgetary Program;
 - Strengthening the relationship between the Annual Budget, Draft Budget and Medium Term National Strategy for Development and Integration.
 - Further development of the budget classification under the program.
 - Implementation of the full value of multi-year procurement and storage of their subsidiaries as treasury limits in order to avoid the creation of arrears.
 - Development of clear and transparent procedures budget.
6. Harmonization of the Draft Medium Term Budget system with ORACLE treasury system in order to have an effective monitoring of public funds.

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