Conference Proceedings

THE ROLE OF FINANCIAL CONTROL AND MANAGEMENT IN THE PUBLIC SECTOR IN RS

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DOI: 10.5937/EEE24012S
JEL: H00, H61
Review Scientific Paper

ABSTRACT

The public sector in the broadest sense of the word implies to all institutions and organizations in which income is generated from budget funds, i.e., those that are "entrusted" with citizens' funds for spending, i.e. revenue collected from the budget users. Financial management and control include all financial and non-financial processes and activities in the business of the entity, and those are performed in all organizational units and on all levels of the entity and include the funds of the entity, including funds obtained from other sources. In accordance with the above, financial management and control include the following interconnected elements, which are defined in accordance with the international standards of internal control: control environment, risk management, control activities, information and communications, monitoring and evaluation of the system. Financial management and control are based on the management accountability at all levels, whereby the heads of the entities are responsible for the establishment and proper functioning of financial management and control in the organization they manage. On the other hand, financial management and control help managers in performing their tasks, i.e. provide support for the organization to achieve its goals by operating in a correct, economical, efficient, effective and public manner.

KEYWORDS

public sector, financial management, control, risk management, information and communication, monitoring.

INTRODUCTION

The Law on the System of Internal Financial Controls in the Public Sector of the Republic of Srpska ("Official Gazette of the Republic of Srpska" No. 91/16) is the basis for the financial management and control as a system of internal controls. The system of internal controls establishes and has the responsibility of the entity's manager, who by managing risks, undertakes all activities to achieve the entity's goals, while ensuring that budget and other funds are used legally, economically, efficiently and effectively.

According to this Law, financial management and control is introduced for the purpose of improving financial management and decision-making in the realization of the set goals of the entity, and in particular for:

- conducting business in accordance with laws, by-laws and internal acts,

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- ensuring reliable, complete and timely financial and business reporting,
- proper, economical, efficient and effective use of funds and protection of property, liabilities and other resources from losses that may arise from inappropriate management, unjustified spending and use, as well as from irregularities and fraud.

Financial management and control include all financial and non-financial processes and activities in the business of the entity, which are carried out in all organizational units and at all levels of the entity and include all funds of the entity, including funds obtained from other sources.

In accordance with the above, financial management and control include the following interconnected elements, which are defined in accordance with the international standards of internal control:

1. control environment,
2. risk management,
3. control activities,
4. information and communications,
5. monitoring and evaluation of the system.

FINANCIAL CONTROL AND MANAGEMENT IN THE PUBLIC SECTOR

The Law on the System of Internal Financial Controls in the Public Sector of the Republic of Srpska is the primary regulation that governs the area of financial management and control and internal audit in the Republic of Srpska, as elements of the system of internal financial controls in the public sector of the Republic of Srpska.

In addition to the Law, by-laws from this area were also adopted, which enabled further activities in the development of the concept of financial management and control in the entities of the public sector of the Republic of Srpska, namely:

- Instructions on the manner and procedure of establishing and implementing the financial management and control system ("Official Gazette of the Republic of Srpska", No. 99/17);
- Rulebook on the content of reports and the manner of reporting on the financial management and control system ("Official Gazette of the Republic of Srpska", No. 112/17);
- Manual for the establishment and development of financial management and control (published on the website of the Ministry of Finance of the RS);
- Standards of internal control in entities of the public sector of the Republic of Srpska (published on the website of the Ministry of Finance of the RS).

The adoption of the Instructions on the method and procedure for establishing and implementing the financial management and control system and the Manual for the establishment and development of financial management and control helps in the practical implementation of the steps required for the establishment of financial management and control in the public sector of the Republic of Srpska.

The Rulebook on the content of reports and the method of reporting on the financial management and control system prescribes the method and deadlines for reporting by public sector entities to the Ministry of Finance of the Republic of Srpska and the Ministry of Finance to the Government of the Republic of Srpska.

Financial management and control is a system of internal controls that establishes and for which the head of the entity is responsible, and which, by managing risks, provides reasonable assurance that budgetary and other funds will be used legally, economically, efficiently and effectively in achieving the goals of the entity. Financial management and control is distinguished in different ways as a specific area of responsibility in public sector entities. The characteristic of the area of responsibility of financial management and control is reflected in the fact that unlike other significant areas of responsibility of the public sector, such are the budget process, fiscal system, management of the borrowing process, payroll, public procurement and other most commonly established areas of responsibility of public entities sector, financial management and control are embedded in all processes and activities and are the integral part of them.

Financial management and control are based on internationally accepted management principles and control standards. The specificity of financial management and control is that there is no model from a country or entity that could be copied to another country or entity. What is common to all models of financial management and control are common management principles and standards. Each model of financial management and control is the result of understanding and applying a different combination of a large number of internal control standards and the conditions under which they are established and applied.

The public sector of each country differs both in terms of the organization of the entities that build the public sector, and in terms of the regulations, which direct it. Therefore, it is important to know the existing management models in order to be able to make the necessary adjustments to the principles and standards of financial management and control.

Financial management and control are carried out in accordance with international standards of internal control, which also include changes and introduction of new standards.

The Central Unit for Harmonization of Financial Management and Control and Internal Audit (CJH), which is an integral part of the Ministry of Finance, has unified and translated internal control standards with all new details.

Financial control and management are based on internal control standards.

The basic standards of internal control in the public sector, according to which the financial control and management are performed, are integrity and ethical values, professional and expert competences, delegation of authority, mission and goals, planning, risk management, policies and management of control activities, separation of duties and property protection.

In the functioning of financial control and management, the accounting and revision profession have the most important role. From the ranks of accountants and auditors, personnel for coordination and management of financial control are delegated.

No less important is the internal audit and comprehensive audit activity.

Internal audit is an independent, objective opinion and advisory activity that aims to improve the entity's operations and help the entity to achieve its goals by providing a systematic and disciplined approach to evaluating and improving the effectiveness of risk management, controls and management processes.

The internal audit is performed in order to provide an objective professional opinion and advice on the adequacy of the financial management and control system in order to improve the business of the entity.

Internal audit contributes to the achievement of the entity's goals with the application of a systematic and disciplined approach in evaluating the entity's operations:

1) by planning audit work, identifying and assessing the nature and level of risk in connection with each activity at the subject,
2) assessing the adequacy and efficiency of the financial management and control system in relation to:

a) identification, assessment and risk management by the entity's managers,
b) business compliance with laws and other regulations, work instructions, internal acts and contracts,
c) accuracy, reliability and completeness of financial and other business information,
d) efficiency, effectiveness and economy of business,
e) protection of funds and information,
f) execution of tasks and achievement of goals, and

3) by giving recommendations to the subject for improving the financial management and control system.

Internal audit can have an advisory role for special unplanned tasks initiated exclusively by the head of the entity, whose goal is to improve the management, risk management and control processes, whereby internal auditors are not responsible for the implementation of given recommendations.

The aim and scope of the advisory role referred to in paragraph 4 of this article is being agreed between the head of the entity and the head of the internal audit unit. Internal audit work includes the following stages:

1) risk assessment,
2) audit planning,
3) conducting an audit,
4) reporting and
5) monitoring the implementation of given recommendations.

Types of internal audit are:

1) system audit,
2) compliance audit,
3) audit of business success (performance audit),
4) financial audit, and
5) audit of information systems.

An internal audit is performed by an objective assessment of evidence from the internal auditor, with the aim of providing an objective, independent opinion or conclusion related to the process, system or other area covered by the audit.

The basic principles and rules of ethics that internal auditors must apply and respect are:

- integrity,
- objectivity,

- independence,
- competence (professional qualification) and
- confidentiality.

The basic management principles of the management system and internationally recognized internal control standards include the principles of accountability and transparency.

ACCOUNTABILITY

Accountability is the process by which organizations and employees are held accountable for decisions and activities, including the management of public funds, as well as for all aspects of work performance, which may be subject to external scrutiny.

Persons in charge of making decisions about the purpose and manner of using public funds are held responsible for insurances of the results of their work which should be measured and that all cases of significant irregularities and possible suspicions of fraud are determined.

Adequate application of the principle of responsibility provides the basis for the application of appropriate sanctions for all established significant irregularities and suspected fraud.

The application of the principle of accountability in the management of public funds, in the most general sense, implies to the responsibility in establishing of such a management model that will ensure on the required hierarchical level that the following goals are defined; strategic, operational and program timely; that output results and indicators of the achieved performance and set goals are identified.; to monitor the realization of performance and goals, and to assess and report on everything on time.

Each activity, program and project of the budget user functions within two systems. One system is the operating system, which is established for achieving the organization's mission and goals. The second system is the control system, which includes the entire operating system, together with policies, procedures, rules and instructions, which ensure the achievement of the goals of the operating system in accordance with the principles of good management.

The control system is particularly important in public sector entities, in which managers in most cases are not in the position personally to supervise everything for which they are responsible.

Therefore, in order to establish an adequate and effective control system through the appropriate degree of delegation of authority and responsibility, managers at all levels in the organization have the following duties:

- To encourage an environment that promotes control - this means that the behavior and attitude of managers towards control should be such that they demonstrate high ethical values and personal standards, integrity, diligence and honesty. Such behavior and attitudes will create an environment that encourages adequate and effective processes in the sphere in which managers have influence.
- To identify risks, i.e. exposure to losses and assess risks related to conducting business - this means to identify exposure to losses with respect to each activity, department and/or system in a specific public sector organization. The exposure is evaluated after in relation to the impact it will have on the organization and the likelihood of occurrence. Managers make decisions about controlling that exposure, balancing risk and controls and taking into account the costs of implementing controls.

- To design and establish a "basic operations infrastructure" - which includes the organization, policies, procedures and standards, plans and budgets that address the identified exposure and reduce it to an acceptable level.
- To design and execute control processes that direct employees to perform tasks in a way that enables the achievement of positive results.
- To design and implement continuous monitoring programs in order to determine the effectiveness through which the control processes achieve the planned purpose, and to report on this.
- To constantly improve techniques in the area of the financial management and control system and perform regular audits of procedures and systems that must be in line with current trends and recommendations from the European Commission".

The frequency and scope of the audit of the control system is established by the head of internal audit in the organization in the public sector, based on the risk assessment and in agreement with and with the approval of the head of the organization in the public sector.

TRANSPARENCY

Another internationally accepted management principle is transparency. The organization should establish a transparent management model that will enable all interested parties to access information that is important to them.

For the implementation of the principle of transparency, it is of great importance that decision makers ensure the identification, preparation and timely publication and access of all relevant information to interested users. Given that public sector entities use taxpayer funds in their work, they are obliged to make their work and the results of their work available to the public as the end user of services.

The transparency of the way public sector entities are managed and the availability of the services they offer through their mission and reasons for existence should ensure to the interested public that information. It should be based on the quality and availability of services that are evaluated, as well as the effectiveness of the management model and the level of achievement of the set goals of the public sector entities.

CONCLUSION

With the adoption of the Law on the System of Internal Financial Controls in the Public Sector of the Republic of Srpska, in 2016, assumptions were made for a more significant development of the system of financial management and control in the public sector of the Republic of Srpska.

Key points related to financial management and control include the following:

- Financial management and control affect all aspects of the organization in the public sector (all employees, processes, activities, programs and projects in the organization);
- Represent a basic element that runs through the entire organization, and not an additional part of the organization;

- Imply the quality of good management;
- They depend on employees; they can be successful or unsuccessful, depending on the attention of the employees;
- Are effective only if all employees and the environment work together;
- Provide reasonable assurance regarding the likelihood that organizations in the public sector will achieve their goals;
- Help organizations in the public sector achieve their mission.

All employees in an organization in the public sector are responsible for internal control. However, the key responsibility rests with the head of the organization over the internal control system.

Especially important financial managers and their employees, whose control activities are intertwined, in the direction of management and towards other organizational units.

People responsible for financial management and control are of special importance, who, with their knowledge and activities, need to establish financial control in a way that serves to achieve the goals of the organization. Of course, their activities are intertwined with the activities of internal auditors and accountants. Therefore, the person responsible for financial management and control must have knowledge about the operations of organization and goal of the employees and institution. This person will be responsible for coordinating activities related to the establishment and development of internal control and is appointed by the head of the organization. This responsibility is in addition to the usual duties of the appointee, and is aimed at improving the management of the institution.

All employees are responsible for the efficient execution of the tasks assigned to them. Practically, all employees prepare certain information that can be used in the internal control system, that is, they undertake the actions necessary for the implementation of the control. In addition, all employees are required to notify their superiors of any problems, failures, errors, weaknesses in activities and operations, non-compliance with rules and procedures, or other violations of policies or illegal actions.

The Central Unit for Harmonization in the Ministry of Finance has a special place in the financial control system. The general mission of the Central Harmonization Unit is to coordinate and harmonize the methodology and guidelines related to financial management and control, and internal audit, at the level of the entire public sector. The role and functions of the Central Unit for Harmonization are detailed in the Law on the System of Internal Financial Controls in the Public Sector of the Republic of Srpska.

Internal auditors play an important role in assessing the adequacy and effectiveness of the control system, and contribute to the ongoing effectiveness of that system. Considering the organizational position and powers that the internal audit function has in the organization in the public sector, it often plays an important role in the process of monitoring and evaluating internal control.

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